HOUSE OF COMMONS
CANADA

PARTNERS IN NORTH AMERICA

ADVANCING CANADA'S RELATIONS WITH THE UNITED STATES AND MEXICO

Report of the Standing Committee on Foreign Affairs and International Trade

Bernard Patry, M.P.
Chair

December 2002

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Foreign Affairs and International Trade

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Chair

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CHAIR'S FOREWORD

The Committee's report comes at a time of unusual opportunity as well as challenge in addressing Canada's relations with our partners on the North American continent. When the idea for undertaking such a study was first contemplated, much of the focus was on trade disputes and the evolution of the broader economic relationships, both the critically important one with the United States and the developing one with Mexico. That emphasis continues, but in the wake of the tragic terrorist attacks on the United States of September 11, 2001, security-related concerns moved to the front of the agenda. Given the urgency of those impacts, we produced a preliminary report a year ago on North American issues in light of the new security environment.

During the past year the Committee has engaged in an extensive public consultation process across Canada. Thanks to the efforts of Ambassador Michael Kergin in Washington and Ambassador Keith Christie in Mexico City and their devoted staffs we also benefited from meeting key interlocutors during visits to the United States and Mexico. Our aim has been to examine, comprehensively and in detail, the future of Canada's relations with the United States and Mexico, seeking to advance those relations in ways that serve Canada's sovereign interests, promote Canadian values, and enhance the long-term security and prosperity of Canadians. That is a tall order, never more so than now, but we believe it can be done through the kinds of forward-looking initiatives recommended in this report.

In achieving this result, I would like to acknowledge my predecessors, the Honourable Bill Graham, Minister of Foreign Affairs, whose leadership inspired the early stages of this study, and the Honourable Jean Augustine who chaired much of the hearings process. I extend my appreciation to all members of the Committee for an exemplary collaboration throughout a lengthy process and an onerous schedule. Their constructive contributions have been essential in bringing the report to fruition.

The Committee would like to express its sincere appreciation to Canadians from coast to coast for sharing their vision and concerns for an evolving North American relationship. We were fortunate to have benefited from the wisdom of several distinguished Mexican and American observers and participants, including fellow Parliamentarians in both countries. Her Excellency Maria Teresa de Madero, Ambassador of Mexico, and His Excellency Paul Cellucci, Ambassador of the United States, took time to meet with us in Ottawa. The Committee commends the diplomatic representatives of all three North American partners for their key role in the management of the relationship.

Of course, a complex report of this magnitude — the biggest in the Committee's history — could not be prepared and finalized without the assistance of a number of people. Our Clerk, Stephen Knowles, ably assisted by John Bejermi, Diane Lefebvre, Caroline Martin and Jean-Michel Roy, handled the administrative, procedural, and logistical matters with admirable efficiency. The enormous tasks of research, analysis, and drafting could not have been accomplished without the diligent work of our veteran principal staff from the Parliamentary Research Branch, Dr. Gerald Schmitz who coordinated the study, and James Lee, with expert contributions from Peter Berg, Michael Holden, and Jay Sinha. Also from the Parliamentary Research Branch, Elizabeth Shore deserves thanks for initial editing of drafts. Blayne Haggart covered public hearings during part of the Committee's travel, and along with June Dewetering and Marc-André Pigeon, assisted with early background documents. Donald Reid and Louis Majeau respectively edited the English and French texts under tight deadlines. Not least, the Publications Service of the House of Commons deserve to be commended for their professionalism and consistent efforts throughout a very demanding process.

It is our hope that this report will circulate widely and stimulate discussion, above all in this country, but also in the United States and Mexico. The report's translation into Spanish — a first for a Canadian parliamentary report — is a recognition of that evolving North American fact. Parliamentarians and the citizens they represent must continue to play a central role in future policy debates and decisions involving the advancement of continental relations through a distinctive Canadian foreign policy capable of making a positive difference within North America and globally. Only through democratic public processes can sustainable progress be made towards securing soundly based partnership objectives, as addressed by our report, within strengthened national and international frameworks that both reflect Canadian ideas and initiative and realize Canada's best interests and values.

THE STANDING COMMITTEE ON FOREIGN AFFAIRS AND INTERNATIONAL TRADE

has the honour to present its

THIRD REPORT

In accordance with its mandate under Standing Order 108(2), your Committee has undertaken a study of North American integration and Canada's role in light of new security challenges and has agreed to report the following:

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PREFACE

In December 2001, the Committee released a Preliminary Report, *Canada and the North American Challenge: Managing Relations in Light of the New Security Environment*, based on a series of hearings held in the aftermath of the September 11 terrorist attacks on the United States. Members of our Subcommittee on International Trade, Trade Disputes and Investment also focused specifically on Canada-U.S. border issues in a November 2001 report, *Towards a Secure and Trade-Efficient Border*, and made a number of recommendations to which the Government responded in the spring of 2002.

More than a year after the attacks on the World Trade Centre and the Pentagon, the Committee continues to have concerns that relate to both security of borders and trade. We are also acutely aware of the enduring impact of the consequences of those attacks, including an understandable preoccupation with guarding against possible future terrorism, on regional and global developments and as well — and above all — on American public policy and opinion. At the same time, as indicated in our December 2001 report, Canada's management of these critical issues needs to be seen in the larger and longer-term context of how Canadians want North American relationships to evolve. What is the overall strategic foreign policy vision that should guide Canada's course of action in the coming years?

Prior to September 11, 2001, the Committee had already been planning a study of key questions involving Canada's relations with the United States within the North American Free Trade Agreement (NAFTA), as well as looking to the future of continental ties including those with Mexico. Some of these questions have become more pressing; none has disappeared. In the December 2001 report, we stated that "the Canadian national interest in the "North American project, whatever it turns out to be, is still to be defined." We emphasized that the next phase must be to listen to the ideas of Canadians across the country and to raise these matters with our partners in North America. Canada must set its own goals and priorities for future relations, but these are unlikely to be realizable without a sound appreciation of developments in the United States and Mexico, among the factors shaping the North American policy context.

The Committee has followed through during the first half of 2002 with an extensive series of public hearings and panels. Beyond the eight that were held in Ottawa, the Committee undertook 16 days of hearings in 12 other centres across Canada. A first round of regional hearings took place in the Atlantic provinces and in Québec in late February. A second round was held in the four western provinces and southern Ontario in early May. In each case, for reasons of economy and efficiency, these hearings were combined with parallel consultations on the G8 Kananaskis Summit agenda. Prior to the hearings, a series of staff discussion notes with questions was posted on the Committee website in order to stimulate response to policy options; these questions proved very successful in eliciting witness reactions and recommendations.

In addition to the Committee's hearings within Canada, members also held meetings with government officials, congressional counterparts, and non-governmental experts in the United States and Mexico. Our meetings in Washington, D.C., in March 2002 coincided with the six-month anniversary of September 11. Members then travelled to Mexico City, where the first formal joint meeting of foreign affairs committees from the two federal parliaments was held in the Mexican Congress on March 13. A number of prominent Mexican witnesses were also heard from in four subsequent panel sessions.

All told, the Committee has benefited from several hundred submissions in the form of oral testimony and written briefs. We are grateful to all those we have engaged in the process for sharing their time and putting their thoughts on the public record. The input received has been invaluable to our deliberations and is reflected throughout the report. Indeed, the diverse range of what we heard is highlighted by drawing from witnesses' own words in the report that follows.

The report is divided into two main parts and five chapters. Part I, "Canada in North America: Meeting the Challenge", introduces the key issues and factors to be taken into account in the development of a forward-looking Canadian policy. Chapter 1, "Towards a Strategic North American Dimension of Canadian Foreign Policy", outlines options for North American policy approaches and gives an overview of the varied perspectives brought to bear by witnesses on key questions and choices. Often these related to concerns about Canada's sovereignty and freedom to manoeuvre in the context of continental integration. This chapter also looks at the ongoing implications of September 11 on Canadian policy options for realizing both North American and wider objectives. The chapter culminates in a series of overarching recommendations for pursuing a coherent and proactive Canadian strategy for North American relations, one that builds the capacity for Canadian priorities to shape a bilateral and trilateral North American agenda.

Completing Part I, Chapter 2, "Understanding a Changing North America", takes a more in-depth look at the evolving North American region. Beyond providing a detailed overview of growing economic linkages and integration developments within North America, this chapter also reviews other significant societal trends, variations, and persistent disparities within and across the three countries. Relevant findings are included from some recent research on national identities and citizens' attitudes towards North American issues. Witness views on how North American relationships should be considered in relation to Canadian interests and values point not only to continuing divergences of approach, as noted earlier, but also to deficiencies in knowledge across the three countries. There is no obvious agreed path that North American relations should take; moreover, much remains to be done in developing a better understanding of the key issues and in positioning Canadians to respond to regional challenges in a rapidly changing North America. These realities should be borne in mind when considering which forms of North American partnership and specific policy directions could best serve Canada's objectives.

Part II of the report, “Canadian Priorities for Advancing North American Relations”, contains the three core chapters dealing with Canada’s policy priorities in the North American context, beginning with those that have been most clearly affected by the aftermath of September 11. Chapter 3, “The Future of Security and Defence Cooperation in North America”, focuses primarily on Canada-U.S. security concerns, notably at air, land, and sea borders, and on defence arrangements. It also discusses how Mexico might be included in cooperative efforts. Among the more contentious issues addressed are how Canada should respond to major U.S. initiatives such as plans for missile defences and the decision to create a military Northern Command.

Chapter 4, “Key Issues in Managing and Advancing the North American Economic Relationship”, looks at ways to improve existing bilateral and trilateral trade and investment flows, at the border and elsewhere. While NAFTA is approaching its first decade of implementation, there is still much unfinished business, ranging from addressing trade remedies and dispute resolution mechanisms (including those of Chapter 11 on investment) to managing environmental and labour cooperation, to assessing the prospects for new institutions. While the longstanding Canada-U.S. dispute over softwood lumber is one of the most obvious ongoing irritants, the chapter also goes further to address the growing debate over managing broader economic integration trends. It discusses witnesses’ views and assesses both “top-down” and “bottom-up” options in relation to various proposals for potentially closer and deeper integration arrangements, such as a customs union, a common market, and a common currency.

Chapter 5, “A Canadian Agenda for Enhancing Bilateral and Trilateral Relations in North America”, looks at the major elements in developing effective political strategies for managing Canada’s North American relations. The introduction to this chapter focuses the need to consider what combination of bilateral and trilateral approaches might best serve to advance Canadian interests in the future. The first section then concentrates on the critically important Canada-U.S. relationship and on the challenge of strengthening diplomatic and other channels for Canadian influence. The next section affirms the increasing importance of relations with Mexico. It considers ways to strengthen this bilateral partnership and move beyond past limitations. One area in which Mexico is keen to work with Canada is in furthering trilateral forms of cooperation; ultimately, envisaging the construction of a “North American community”. This chapter’s third section reviews witnesses’ perspectives on the merits of promoting closer North American ties through trilateralism and the possible implications for democratic governance. It also goes further, to examine some ideas for pursuing trilateral approaches that could involve new institutional arrangements, more intensive intergovernmental and parliamentary cooperation, and practical measures undertaken jointly in particular cross-border policy sectors.

In view of the huge asymmetries of power and wealth among the three countries of North America, not to mention historical, cultural and other differences, it is not surprising that witnesses were sometimes divided on the merits of particular ideas and approaches. In furthering the North American partnership, the Committee believes that Canada must keep its options open while both pursuing elements of that partnership that are in the long-term Canadian interest and encouraging ongoing public debate over the available options.

This report is offered as a contribution to that necessary national debate, not as a definitive blueprint for the future of Canada's relations with its North American neighbours. At the same time, the Committee is convinced that it is a matter of national priority to act now on developing a clear, concerted and coherent Canadian strategic vision for North America. The report's concluding section on "The Committee's Vision for Advancing Canada's Objectives in North America" highlights in summary the key elements on which the Committee believes the Government must move in order to promote Canadian interests and values in the North America of the twenty-first century.

Events have moved quickly in the past year, and unforeseen challenges may emerge again as they did on September 11 last year. With the benefit of a public strategy for North American relations and the capabilities in place to implement it, Canada will be better prepared and positioned to advance its objectives, not only within North America but multilaterally and globally as well. In the Committee's view, pursuing a sovereign and mature partnership within North America will best serve Canadians while commanding attention and respect on our own continent and beyond.

PART I

CANADA IN NORTH AMERICA:
MEETING THE CHALLENGE

CHAPTER 1: TOWARDS A STRATEGIC NORTH AMERICAN DIMENSION OF CANADIAN FOREIGN POLICY

The consequences of continental integration have not been as formidable as many people believed. While Canada has surrendered some policy instruments in exchange for access to larger markets and pressures for harmonization have probably increased, it still retains significant room to manoeuvre, even in areas of policy most affected by integration. We should not be deceived by the illusion of false necessity.

George Hoberg, in *Capacity for Choice:*
Canada in a New North America,
University of Toronto Press, Toronto, 2002 (p. 311).

Canada has a long history of dealing with a major problem. That problem is, how do you live with a giant neighbour? How do you benefit from the interdependence in security and economics that exists on the North American continent, while at the same time preserving independence as a distinct political culture? I would argue that by and large, Canada has walked this tightrope quite successfully.... The idea that Canada always loses or that Canada is the servant of the Americans just doesn't stand up to the historical test.... I think we have to free ourselves from some of our traditional ways of thinking and ask how we can make sure Canada continues its successful walking of the tightrope, to deal with this interdependence, while preserving its distinctiveness as a political culture. I think this can be done, and what's more, I predict it will be done.

Joseph Nye, Dean, Kennedy School of Government,
Harvard University, *Evidence**, Meeting No. 74, May 2, 2002.

The interests of Canada, the United States and Mexico in drawing closer together deserve far greater discussion and analysis. With attention placed on future proposals and scenarios, few people have asked "what is the purpose of all this discussion?" or "what is in it for us?" The absolute gains from adopting a North American approach need to be clear for any future discussions to be fruitful.... It is not clear at this point how far the three countries are willing to take the North American relationship....Building a more integrated North America needs to be a collective endeavour consisting of many layers of government, parliamentarians, the private sector and society at large.

Stacey Wilson-Forsberg, *North American Integration:*
Back to Basics, Policy Paper, Canadian Foundation for the Americas,
Ottawa, August 2002 (p. 5 and 10).

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* Throughout this report, testimony given during Committee hearings is cited as *Evidence*, by meeting number and date. Such citations refer to the proceedings of the Standing Committee on Foreign Affairs and International Trade. Testimony cited in the text was given during the 1st Session of the 37th Parliament. It is available in both official languages of Canada on the Canadian Parliamentary website at www.parl.gc.ca/InfoCom/CommitteeMinute.asp?Language=E&Parliament=8&Joint=0&CommitteeID=143.

WHAT WITNESSES SAID

How much economic integration is in the best interests of Canada? Should governments place a limit on the extent of integration? Will we know when we've reached that limit, or should we allow the integration to continue without question or challenge? Can Canada develop a coherent Canada-U.S. relations strategy by dealing with problems on a case-by-case basis, or do we need to develop a more comprehensive approach based on principles and frameworks? If we choose the comprehensive approach, how will this be done? What is the process that would allow for a free-ranging discussion, without forcing you, our political leaders, to declare a preference before you are ready to do so? Should Canada redefine its relations with the United States by engaging in a broader North American dialogue involving Mexico? If so, when and how, and what would be the characteristics of this dialogue?

David Zussman, Public Policy Forum,
Evidence, Meeting No. 55, February 5, 2002.

Increased integration with the United States is not our only alternative. And I am saddened by the way in which some are using the tragic events of September 11 to say that we must give up even more sovereignty to maintain our economic relationship with the United States. We should not be defined by our economy. We are also citizens. And as citizens, we must work to preserve our unique culture and values.

Lawrence McBreaty, United Steelworkers Union,
Evidence, Meeting No. 77, May 7, 2002.

First, Canada cannot take its economic and political relationship with the United States for granted. We have to be smart about assessing the economic and social impacts of policy decisions in light of our unequal dependence on the American economy. We have to be focused, and we have to be proactive in defining the future of that relationship. Secondly, the significance of Canada's economic relationship with the United States has to be better communicated to the American public, and I would say to the Canadian public as well. Thirdly, close relationships between Canadian and U.S. policy-makers, together with Canada's ability to find allies within the U.S. and among other influential trading partners, are more important than ever in shaping policy outcomes in the United States. And fourthly, rules and obligations established on the multilateral level within an FTAA or within the NAFTA continue to be Canada's best safeguard against unilateral actions on the part of the United States that have a negative impact on Canada.

Jayson Myers, Canadian Manufacturers & Exporters,
Evidence, Meeting No. 55, February 5, 2002.

The United States has a very strong drawing power. They represent the big market. And they use that market. We see that in the Americas. We saw it with NAFTA. Canada wanted the original free trade agreement. Mexico asked for NAFTA. The United States simply bide their time. They have the market and they know that there are advantages to having this market. They wait for the request to come in and they accept them from a position of strength.

Gordon Mace, Laval University,
Evidence, Meeting No. 60, February 26, 2002.

It has never been more important in the last half century for Canada to engage the United States, and we probably have never in the last half century been less able to engage the United states than now.

Fred McMahon, The Fraser Institute,
Evidence, Meeting No. 78, May 7, 2002.

We're the foreign country most like the United States, and consequently it's easy for us to look at the similarities and not necessarily see the differences that are really important for our public policy.... I personally think this is the biggest risk, that we might lose the ability to know when it's worth paying the price for our differences and we'll either pay for things that we don't really need or we'll forget to pay for things we do.... I have no doubt that we're going to have to move some way to recognize American concerns, and it may be in our interest to. But I would suggest that we also, in thinking about the concerns of our partners in the Americas, might want to look for ways to work on their issues ... When we make these choices, we have to recognize that in a sense, we're custodians of a power that other partners in the Americas don't have. If we are looking for a way to create a role, and perhaps to improve Canada's standing in the world and to pull more than our weight, as is often said, maybe we'll look at that as a way in which we can use that power to advance that position.

Daniel Cohn, Simon Fraser University,
Evidence, Meeting No. 78, May 7, 2002.

Mutually recognizing each other's standards would greatly facilitate movements between our countries without harmonizing policies. That has been done quite successfully in Europe, for example.... incremental changes are both necessary and important, but will not ultimately draw U.S. attention to Canadian interests. Crisis management does not make a vision. Canada should initiate a bold, proactive strategy to achieve its goals in the North American sphere.

Danielle Goldfarb, C.D. Howe Institute,
Evidence, Meeting No. 77.

The exceptional measures that must be taken in the current context to ensure national security must always keep in perspective what history has made us: the respect of human rights, the respect of civil rights, democratic freedoms. These measures, both Canadian and American, may be similar, but in no way must they be identical. That is why we oppose identical immigration policies, for example, between Canada and the United States.

Blair Doucet, New Brunswick Federation of Labour,
Brief, February 28, 2002.

... the Canada-U.S. relationship is getting deeper by the day. De facto economic integration is here, and we have to consider all the options. I don't think a lot of Canadians are really aware of the depth of economic integration and the way it is intensifying.... Certainly many of the business people I interact with look at North America as a single, integrated marketplace, with only minor differentiation.

Robert Keyes, Canadian Chamber of Commerce,
Evidence, Meeting No. 89, June 11, 2002.

The dominance of the United States on the world stage as the latest superpower is leading to a clash of values. The struggle against terrorism is shifting into confrontational alignments. It is of critical importance that Canada assist those who are suffering from the militarization and degradation of the planet, act as a peacemaker and try to reduce the growing gap between rich and poor. To do otherwise is to encourage terrorism, betray our own citizens and further endanger our future.

Shirley Farlinger, University Women's Club of Toronto,
Brief, Toronto, May 2002.

Canadians need to constantly be discussing engagement. The worst thing we can do is say we're not going to do anything. We will try not to stir the pot and don't want to talk about it.... generally speaking, the moment you can annunciate a Canadian interest that is different from an American interest, and explain why we are going in a certain way, Canadians, as a whole, tend to accept it.

Robert Huebert, University of Calgary,
Evidence, Meeting No. 80.

Public understanding and support of the trade and economic processes are vital in democratic societies. Increased understanding and exposure will lessen the "us and them" syndrome. For, ironically, as we become more economically integrated we will also find an increase in dispute and disagreements that will fuel tensions and will reflect different values and priorities. Helping the public see, and preferably experience, the other countries can build transnational consciousness that can assist in the integration process. We need a North American constituency. But increasing awareness of each other and of the community we are building is important in and of itself, because it broadens our horizons and deepens our understanding of ourselves.

Brian Stevenson, University of Alberta, Presentation
"Talking to Our Neighbours", May 9, 2002.

1.1 The North American Relationship and Canadian Foreign Policy in Question

The last parliamentary review of Canadian foreign policy observed in its opening paragraph, "the world around us has been transformed. With the end of the Cold War direct military threats to Canada and its allies have receded, but order and security are still elusive.... Globalization is erasing time and space, making borders more porous, and encouraging continental integration." A later section on Canada-United States relations noted increasing economic linkages and recommended cooperation in managing the "inherent tensions" of this most important bilateral relationship. At the same time, it also affirmed the necessity of protecting "our vital interests [through] the preservation of Canadian sovereignty and independence, and the capacity to play the sort of active and independent role in the world that Canadians demand."[1]

That 1994 review recognized international terrorism as among the emerging unconventional threats to peace and security, but could not have anticipated the extent of Canadian vulnerability to U.S. actions following the terrorist attacks of September 2001.

It asserted that Canada's NAFTA membership made it "now part of the evolving North American region," but did not consider relations with Mexico or possible trilateral North American initiatives.[2] Still, the above citations point to an essential dilemma that more than ever challenges the makers of Canadian foreign policy. Canada's high and increasing international exposure, in particular to American power and continental forces, are realities that are impossible to ignore in the present, even if they could conceivably be mitigated over the longer term. Given that state of affairs, how can Canada continue to derive benefits from these associations while retaining a sovereign, independent course in both domestic and international policies?

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[1] Report of the Special Joint Committee Reviewing Canadian Foreign Policy, *Canada's Foreign Policy: Principles and Priorities for the Future*, November 1994, p. 1 and 77.

[2] Ibid., p. 78.

Clearly Canada does not have complete freedom of action in the continental context. Political negotiations involve other sovereign partners; hence some compromises and trade-offs may be inevitable within the North American relationship, however it evolves and however the processes of regional "integration" are understood. This may also be true whether or not governments in any of the three countries actually have any conscious design for dealing with their continental relationships in response to integrating forces or pressures. The question for Canadian policy then becomes: are there opportunities to be seized and net gains to be realized that will substantially outweigh any potential downsides from more integrated arrangements? And can governments act strategically in order to maximize benefits from these arrangements while minimizing any costs associated with them? Indications are that Canadians have become increasingly confident about Canada's ability to manage closer economic ties with its North American neighbours to overall Canadian advantage.[3]

This is a matter that continues to be vigorously debated, however, both from the standpoint of looking ahead to possible future scenarios for North American relations and from the vantage point of looking back over the last several decades of Canada's economic integration experience in North America. For example, Professor Stephen Clarkson, who testified before the Committee in Toronto, observes in a new book[4] that the Macdonald Commission of the early 1980s had argued for a more activist foreign policy and bilateral free trade with the United States, without seeing these goals as contradictory. Proponents of entering into such binding agreements, even one-on-one with a superpower, have generally contended that their mutually agreed rules can afford a smaller power like Canada more protection than the status quo. Yet some of the Committee's witnesses, Clarkson included, would clearly contest claims that the record of the Canada-U.S. Free Trade Agreement and NAFTA has in fact enhanced Canada's position in the way it was intended. Indeed, Clarkson contended that, on the contrary, Canada has made itself weaker as a result.

Similar arguments go back even further concerning the advantages or disadvantages of entering into continental defence partnerships, since as witnesses noted, Canada has been deeply integrated within a U.S. military security umbrella since at least the 1940s. Clearly, debates over the economic and security parameters of continental cooperation, and over their potentially positive or negative effects for

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[3] For example, in a recent national survey done by Pollara, about two-thirds of respondents supported further economic integration with the United States (see Robert Fife, "66% Favour Stronger Ties to U.S.", *National Post*, October 21, 2002, p. 1).

[4] Stephen Clarkson, *Uncle Sam and Us: Globalization, Neoconservatism and the Canadian State*, University of Toronto Press and Woodrow Wilson Press, Toronto, 2002. The arguments of both Clarkson's book and his presentation to the Committee are highly critical of such benign integrationist assumptions.

Canada's freedom of action, are not new. However, these debates have been exacerbated by the events of September 11, 2001 and their continuing implications for international affairs, notably in regard to the robust assertion of U.S. power abroad based on U.S. national security preoccupations. In light of these challenging circumstances, an overriding question that is more relevant to ask than ever is this: how should Canada's foreign, defence, and trade policies take into account North American integration forces in ways that advance, rather than compromise, Canada's core national interests and values?

Some witnesses saw the factors pushing forward integration as facts of North American life. They suggested that Canada seize opportunities to profit from closer cooperation with the United States, and to a lesser extent Mexico, seeking to manage continental economic and security relationships to Canadian advantage. As was pointed out to the Committee, whatever governments decide to do or not to do, a "silent" integration is happening anyway as a result of the daily decisions of millions of individuals, businesses, and associations. Several witnesses, such as Danielle Goldfarb of the C.D. Howe Institute, argued that the time is ripe for Canada to press forward with a "big vision," to be aggressively proactive on the integration agenda.[5] Other witnesses, however, saw further integrationist pressures as something to be resisted, or at least contained, and opposed any closer alignment of Canadian policies with those of North American partners. A few, such as David Orchard in Saskatoon, sought to reverse the extent of integration and policy convergence that has already taken place.[6]

Can Canada be a good neighbour, friend, ally and partner of the United States and Mexico, realize net gains from a liberalized North American economy, and still avoid the kind of "Americanization" that some fear will lead to a foreclosing of democratic public policy options within Canada? In foreign policy terms, would a Canada that became too closely drawn inside a North American "perimeter" thereby marginalize its capacity to exert its own distinctive influence in world affairs and reduce its status to that of a peripheral power? Or is it the case, as a former Canadian ambassador to the United States, Allan Gotlieb, argued in a September 11, 2002 article, that it is time to accept that Canada's international position has changed. In his words: "Canada's greatest asset on the international stage is our relationship with the United States.... Are there not elements of a grand bargain to be struck, combining North American economic, defence and security arrangements within a common perimeter?"[7] At the same time, however, in a companion column, a former American ambassador to Canada, Gordon Giffin, suggested: "The relationship doesn't need a 'new idea', rather a renewed mutual commitment. A confident Canada with a comprehensive vision can define the direction and substance of a new momentum for our partnership.... In crafting that Canadian vision, which must first be based on Canada's interests before it can be viewed through the friendship prism, it is well to realize that on most matters there is no monolithic American view."[8]

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[5] See *Evidence*, Meeting No. 77, Toronto, May 7, 2002. Ms. Goldfarb referred to the first of the Institute's series of "Border Papers" by Wendy Dobson, *Shaping the Future of the North American Economic Space: A Framework for Action*, No. 162, April 2002. This paper provoked considerable critical commentary from other witnesses, including from Mr. Clarkson, who appeared the same day. For similar arguments on the desirability of a big strategic overture to the United States see the testimony of Michael Hart, *Evidence*, Meeting No. 55, February 5, 2002; also Michael Hart and William Dymond, *Common Borders, Shared Destinies: Canada, the United States and Deepening Integration*, Centre for Trade Policy and Law, Ottawa, 2001.

[6] *Evidence*, Meeting No. 83, May 10, 2002. A similarly strong economic nationalist case against North American integration was made by Professor Rod Hill of the University of New Brunswick, *Evidence*, Meeting No. 63, February 28, 2002. For other arguments sharply opposed to continental integration see also Murray Dobbin, *Zip Locking North America: Can Canada Survive Continental Integration?* written for the Council of Canadians, October 2002 (accessed at www.canadians.org); and Mel Hurtig, *The Vanishing Country: Is It Too Late To Save Canada?*, McClelland and Stewart, Toronto, 2002. (Testimony was invited from the Council of Canadians but none was received prior to the end of June 2002 deadline for submissions or the prorogation of Parliament in September 2002.)

What are we to make of these contrasting assessments of Canada's current position in North America? The Committee believes there can be a middle ground that will allow Canada to enter into carefully considered cooperative arrangements and negotiated agreements with North American partners in such areas as common security and predictable market access, where there are demonstrable benefits to be obtained for Canadians. But we also recognize that this will require an intensive effort to take stock of our own situation, to build public consensus around any agenda for North American partnership serving Canadian interests and values. Canada then needs to be able to bargain effectively on a reciprocal basis of mutual interests with its North American partners, the United States in particular. As the Committee's own meetings in Washington confirmed, getting the attention and interest of the United States is usually one of the biggest challenges in itself.

Canada's Situation in North American Perspective

Canada's position and policy options in the North American context have undoubtedly been conditioned by what Professor Daniel Cohn of Simon Fraser University described to the Committee as processes of market-oriented "regionalization", to which Canadian public policy frameworks have generally adapted during the past several decades. No shared North American identity or "constituency", at least in any political sense[9], may have emerged out of these predominantly economic North American integration trends, which we profile in detail in Chapter 2. Nevertheless, they have potentially significant implications for how Canadian policy and regulatory decisions are framed. As Cohn described it: "Regionalization is being driven by the choices we made to liberalize. ... We can indeed be different, but we have to choose to pay the price of our differences."[10] Cohn suggested that, compared with other countries of the Americas,

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[7] Allan Gotlieb, "Why not a grand bargain with the U.S.?", *The National Post*, September 11, 2002, p. A16.

[8] Gordon Giffin, "Make it friendship — pure and simple", *The National Post*, September 11, 2002, p. A16.

[9] Cohn speaks of firms increasingly making decisions on the basis of marketing to a "median" North American consumer; in contrast, it rather obviously makes no sense to think in terms of a median North American voter.

[10] *Evidence*, Meeting No. 78, May 7, 2002, and *Submission*, "Regionalization in a Neo-Liberal Era: Risks and Opportunities for Canada."

Canada may be in an enviable bargaining situation when it comes to pursuing its particular interests within a regional integration context that is dominated by its giant neighbour.[11] The onus is clearly on Canada, however, to do its own cost-benefit analysis of where more integrated policies might make sense,[12] as well as where Canadian policies — on foreign, defence and security, and trade issues, and in affected domestic fields — ought to be different from, or perhaps even at odds with, those of its North American partners. And this analysis must take into account cross-border effects, given how costly disruptions to established continental connections could be, potentially raising the "price of difference" to unacceptable levels.

A number of observers have noted the growing impact of North American factors on Canadian foreign policy in recent years, despite instances where Canadian policies may have notably diverged from those of the United States (e.g., on the Ottawa Convention to ban landmines and the creation of an International Criminal Court). Some have raised the prospect of a "North American trajectory", "vanishing borders" and a "return to continentalism". Even former foreign minister Lloyd Axworthy called for new forms of trilateral North American cooperation beyond trade.[13] The Canadian state, it has been argued, still has choices to make along the path of North American integration, even if it cannot simply reject the facts of that increasing integration and go backwards.[14]

Some of our witnesses viewed the range of Canada's choices as being quite circumscribed. For example, Professor Gordon Mace, Director of Inter-American Studies at the Institut québécois des hautes études internationales, told the Committee that the FTA and NAFTA trade deals have fundamentally and inescapably altered the foreign policy landscape. Canada's increased economic vulnerability within the "new economic management framework", as he put it, has "greatly decreased" Canada's leeway in bilateral relations with the United States, and he urged the development of a broader partnership with Mexico and other countries of the Americas as a "natural counterweight."[15]

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[11] As Cohn put it: "It's hard to think of us as the strong party, but relative to the rest of the Americas in dealing with the United States, we are. They're the 900-pound gorilla. We're the 200-pound chimpanzee in the Americas". (*Evidence*, Meeting No. 78.)

[12] By "more integrated" we mean more compatible and coordinated with each other, not necessarily harmonized or common policies. Economist Daniel Schwanen, who testified in Montreal, has argued that mutual recognition agreements and standards of "interoperability" are all that would be needed or desirable in many areas of shared cross-border concern.

[13] Cf. Ronald Inglehart, Neil Nevitte, and Miguel Basanez, *The North American Trajectory: Cultural, Economic, and Political Ties among the United States, Canada, and Mexico*, Aldine de Gruyter, New York, 1996; John Herd Thompson and Stephen J. Randall, *Canada and the United States: Ambivalent Allies*, third edition, esp. Chapter 11, "A North American Trajectory? 1994-2001", McGill-Queen's University Press, Montreal & Kingston, 2002; Fen Osler Hampson and Maureen Appel Molot, "Does the 49th Parallel Matter Any More?" in Hampson and Molot, eds., *Canada Among Nations 2000: Vanishing Borders*, Oxford University Press, Don Mills, 2000; Fen Hampson, Maureen Molot and Norman Hillmer, "The Return to Continentalism in Canadian Foreign Policy", in Hampson, Hillmer and Molot, eds., *Canada Among Nations 2001: The Axworthy Legacy*, Oxford University Press, Don Mills, 2001.

[14] Denis Michaud, "Du libre-échange à une intégration plus poussée: les acteurs étatiques canadiens et l'élaboration de politiques publiques impliquant un état étranger", *Canadian Foreign Policy/La Politique Étrangère du Canada*, Vol. 9, No. 1, Fall 2001, p. 29-42.

The shock of September 11 has sharpened considerations of Canada's situation as perceived in continental and global terms. Maureen Molot and Norman Hillmer observe that it has given "a new urgency to questions of sovereignty and decline."[16] Their controversial thesis that Canada may be a "fading power", especially viewed through a North American lens, is certainly open to dispute, however. Many witnesses urged that Canada not sell short its ability to exert independent influence on the United States. Two prominent Americans — former senior Congressman Lee Hamilton, whom the Committee met in Washington, and Joseph Nye of Harvard University, who testified in Ottawa — both made a forceful case that Canada, with its strengths in multilateralist non-military diplomacy, can be helpful in cautioning the U.S. against a temptation to "go it alone".

While Hamilton acknowledged that "America is filled with its own importance", he suggested Canada could take a firmer stance. "You folks capitulate too easily", he said. Christopher Sands, head of the Canada Project at Washington's Center for Strategic and International Studies, who testified in November 2001, has also argued provocatively that Canada can choose to pursue a "strong state strategy" in approaching the United States and responding to its concerns. Indeed, he sees opportunity where others might see limitations, stating: "Thanks to deepening interdependence through economic integration, Canada is not a fading power in the United States. It is instead a rising power, more important to Americans and their prosperity than ever before in U.S. history."[17]

Nevertheless, the Committee has no illusions about the challenges facing Canada in being heard in U.S. decision-making circles, given current national security preoccupations and the ever-present domestic political calculations that prevail within America's complex federal system. Witnesses emphasized how important it is for Canada to tackle that system as it really operates, and at many points and levels, not just at the centre of federal power in Washington. Canadian policy must take into account how September 11 has "changed the United States far more than it did the rest of the world", in the words of Jessica Mathews, President of the Carnegie Endowment for International

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[15] *Evidence*, Meeting No. 60, February 26, 2002.

[16] Maureen Appel Molot and Norman Hillmer, eds., "Preface" to *Canada Among Nations 2002: A Fading Power*, Oxford University Press, Don Mills, 2002, p. xi. See also the critical assessment of Canada's capabilities and policy options in both global and North American terms in a recent report of The Conference Board of Canada, *Performance and Potential 2002-03*, chapter 4 "Canada's Place in the World in 2010: Will Canada Matter?" (accessed at www.conferenceboard.ca).

[17] Christopher Sands, "Fading Power or Rising Power: 11 September and Lessons from the Section 110 Experience", *Canada Among Nations 2002*, p. 72.

Peace.[18] Her view of U.S. foreign policy, which many of the Committee's witnesses would share, is that the record so far "is assertively unilateral and anything but humble".[19] At the start of George W. Bush's presidency, concerns were expressed that the United States might focus more attention on Mexico than on Canada. But in Mathews' assessment, that intended Mexican focus has been "'disappeared' by 9/11" on the U.S. foreign policy radar screen. There is no mention of Canada at all in this global review by one of Washington's most multilateral-minded think tanks.[20]

Canada cannot assume that its voice will carry weight in the United States based on the facts of North American economic integration or expectations of a historic "special relationship", which according to scholars Randall and Thompson has always been more exaggerated than real. In their blunt estimation: "To the United States, Canada is just like any other country.... Canada's lack of understanding of this basic truth has been the source of confusion, uncertainty, and wounded sensibilities on the part of Canadians when Canadian policy has either failed to meet a desired American standard or has seemingly or actually challenged a U.S. position."[21]

Andrew Cohen, who testified before the Committee in November 2001, has argued that Canada should just accept the obvious asymmetry in the importance of the bilateral relationship to each side and move on to build up our own foreign policy assets: "a strong credible military; an efficient, exemplary aid program; an effective diplomatic service and a first-class intelligence service. With these tools, Canada could speak more confidently on the world stage." In Cohen's view, while Canada will have little choice but to meet increased American security concerns in the North American "neighbourhood", Canada need not care about being noticed in Washington if it concentrates on being a more effective multilateral actor.[22]

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[18] Mathews, *September 11, One Year Later: A World of Change*, Carnegie Endowment for International Peace Policy Brief Special Edition, Washington D.C., August 2002, p. 1.

[19] Ibid., p. 10. The confident sense of a United States able and willing to project its power abroad as it see fit is also apparent in an April 2002 address by Richard Haas, director of the Department of State's Policy Planning Staff: "In the twenty-first century, the principal aim of American foreign policy is to integrate other countries and organizations into arrangements that will sustain a world consistent with U.S. interests and values, and thereby to promote peace, prosperity, and justice as widely as possible." (cited in Christopher Sands, "Integration: Process, Condition, or Doctrine?", *North American Integration Monitor*, Center for Strategic and International Studies, Washington, D.C., Vol. 1, Issue 1, July 2002, p. 1.)

[20] Mathews, *September 11, One Year Later*, p. 10 and passim. In contrast, Canadian perspectives on the international situation tend to focus heavily on U.S. power and policies. See, for example, the *Strategic Assessment 2002* produced by the Directorate of Strategic Analysis in Canada's Department of National Defence (Ottawa, September 2002), that takes into account the new U.S. national security strategy made public on September 20, 2002.

[21] Thompson and Randall, *Canada and the United States: Ambivalent Allies*, 2002, pp. 324-25. On this lack of U.S. "exceptionalism" or special focus in regard to Canadian concerns, see also Edelgard Mahant and Graeme Mount, *Invisible and Inaudible in Washington: American Policies Toward Canada*, UBC Press, Vancouver, 1999.

[22] Andrew Cohen, "Canadian-American Relations: Does Canada Matter in Washington? Does It Matter If Canada Doesn't Matter?", in Molot and Hillmer, *Canada Among Nations 2002*, p. 46-7.

That approach might seem to make the best of a troubling situation. It would be cold comfort to softwood lumber and agricultural producers, however, or to other Canadians directly impacted by U.S. policies and pressures. The Committee takes the position that Canada's ability to have its issues dealt with seriously within the American political system matters a lot, even if we should not get hung up on symbolic appearances. It is influence at the practical policy level that counts. Hence in Chapter 5 we will devote detailed consideration to the modalities for enhancing Canada's bilateral diplomacy with its most important partner.

Is Canada's Sovereignty at Risk in North America?

Turning to the other major set of concerns noted by Hillmer and Molot, namely those related to Canada's sovereignty at home and abroad, the Committee heard distinctly divided viewpoints. Some advice boiled down, in effect to: worry less; do more. According to historian Reginald Stuart, "the historical evidence shows Canada's sovereignty has been relatively secure", and recent polls "suggest Canadians have far more confidence in their sense of independence, difference and identity from Americans than many of the so-called spokespersons for Canadian sovereignty."[23] James Fergusson of the University of Manitoba's Centre for Defence and Security Studies suggested: "Our cooperation with the United States, our closest ally and friend, has always been premised on its important role in maintaining Canadian sovereignty at a reasonable cost both fiscally and politically."[24]

Nor is Canadian difference necessarily a problem for the United States, contended Professor Louis Balthazar, referring to his experience of "the American desire to recognize Canadian sovereignty."[25] Leading international relations scholar Joseph Nye, a former U.S. Assistant Secretary of Defense for International Security Affairs, did not see why U.S. initiatives such as a new military "Northern Command" should "have a negative effect on Canadian sovereignty" any more than NORAD did, adding: "I believe concerns about loss of sovereignty often get in the way of clear thinking.... Interdependence in security affairs has been there for some time, and I don't see any reason Canada cannot retain the right to withdraw from activities or dimensions that it does not approve of."[26]

Also addressing the security and defence field, Professor Frank Harvey found concerns about loss of sovereignty to be overstated. In his view, there has been for some time very little substantive divergence between Canadian and American foreign policy preferences. He added that if Canada wants to "have the luxury" of going its own way separately from the United States, it will have to make investments in international policy capabilities, not just “talk a very good game”.[27] More provocatively still, Gordon Gibson, Senior Fellow at the Fraser Institute, took the view that much of the sovereignty anxiety is misplaced, since in the end, “sovereignty lies in the individual. ... Nation-states are mere public utilities for the collective exercise of individual sovereignty. If our individual choices bring us closer to the Americans or them to us, who is to say that's wrong?”[28]

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[23] *Evidence*, Meeting No. 59, February 26, 2002.

[24] *Evidence*, Meeting No. 75, May 6, 2002.

[25] *Evidence*, Meeting No. 60, February 26, 2002.

[26] *Evidence*, Meeting No. 74, May 2, 2002.

In contrast, some witnesses were adamant that Canadian sovereignty is at risk of being compromised, and that the Government ought to strive to retain as much foreign policy autonomy as possible, enabling the pursuit of Canadian interests and values internationally that may be quite different from those of our southern neighbour. For example, Professor Nelson Michaud warned that: “When we talk about sovereignty, we may find ourselves on ground that is at times slippery.... A North American security perimeter, a border that meets the same norms on both sides, north and south, is tantamount to saying that Canada no longer controls its border. At the very least, it is joint control. ... We have a problem if we want to protect Canadian sovereignty.”[29] Rod Hill, a former research adviser to the Macdonald Commission, sharply rejected the line that says “if we give it up voluntarily that's an exercise in sovereignty, so we've retained our sovereignty by giving it all away, you see, because it was a free choice.”[30]

The Committee recognizes the need to take into account the concerns about sovereignty that surfaced repeatedly in the testimony, as well as those suggesting that Canada may be in a weakened position to defend and promote its interests at and beyond its borders. However, as we affirmed earlier, we believe the choices are not so stark as between passive surrender and compliance with U.S. demands on the one hand, or an aggressively nationalist version of Canadian unilateralism on the other. Surely, in the context of having good North American relations, the reasonable approach is to discern where cooperation among Canada, the United States, and Mexico — whether through bilateral, trilateral, or multilateral channels — can serve the best interests of each partner.

Every international relation that is not hostile, subservient, or purely unilateralist implies some sharing or pooling of sovereignty for a mutually agreed purpose. The more Canadian foreign policy instruments are able to contribute to such purposes, the more confident we can be of developing a North American dimension of these instruments that asserts Canadian interests and values in a mature, respected and credible fashion.

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[27] *Evidence*, Meeting No. 61, February 27, 2002.

[28] *Evidence*, Meeting No. 78, May 7, 2002.

[29] *Evidence*, Meeting No. 62, February 27, 2002.

[30] *Evidence*, Meeting No. 63, February 28, 2002.

1.2 Defining What Canada Wants: First Reflections on Bilateral, Trilateral, and Multilateral Aims in a North American Context

That said, an important policy development task will be to define what goals can be accomplished by the North American dimension of Canada's foreign policy. This is a primary responsibility of the Government of Canada, in consultation with Canadians, unless we are content to let North American relations drift or have our agenda driven by others. The Committee's hearings during the past year provide a sense of policy priorities and options, but also indicate that a national consensus remains to be forged around clearly stated aims and strategies for achieving them. The following sections of this chapter look at some of the different perspectives that have emerged from the testimony, and at the impact of September 11 on the shape of a North American agenda. They also lead into a consideration of the sort of coherent, strategic approach the Committee thinks is required.

A few preliminary notes are in order, the first of which is that realism requires acknowledging the primacy of the Canada-United States relationship for Canadian purposes. How that relationship is managed affects virtually every aspect of foreign policy and certainly determines the effectiveness of any North American dimension. However, if it is the case that the United States has a very different perspective on the world, as Foreign Minister Bill Graham has suggested, then distinguishing Canada's approach will always be a necessary, and often an uneasy, task. As Mr. Graham has put it: "I'm not saying I want the foreign policy to be designed in contradistinction to the United States, but we have to hold our own values."[31]

Related to the above, we need to reflect further on what key values should be projected in our international relations, including those with the United States. When such normative questions are asked, goals such as support for peacekeeping, human rights, cultural diversity, assistance to poor nations, the United Nations, and multilateralism in general are often mentioned. Neither the strength nor the relative weight of these goals can be taken for granted, however. For example, a recent poll commissioned for *Maclean's* and *l'Actualité* indicated that, when it comes to the importance of retaining sovereign control, most Canadians ranked cultural concerns considerably lower than natural resources, health, the economy, immigration, defence, and the currency.[32] Yet this is hardly an adequate guide. A letter to the Committee from the Coalition for Cultural Diversity urged defending the principle that "cultural policies must not be subjected to the constraints of international trade accords."[33] Professor Ivan Bernier of Laval University also appealed for a Canadian vision of the role of culture in the face of current circumstances:

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[31] Cited in Hillmer and Molot, "The Diplomacy of Decline", p. 4.

[32] Robert Sheppard, "Hedging Our Bets", *Maclean's*, September 9, 2002, p. 36-7. Another finding of the poll was that a majority (56%) see Canada as "independent from the United States" in international politics and related areas such as economy, security, and culture. However, paradoxically, while Quebec respondents were more concerned about Canada maintaining cultural sovereignty than the national average, only 36% of them saw Canada as independent from the United States in these areas.

[33] Letter requesting to appear, March 18, 2002.

> I think that in any review of our policy on the U.S. following the events of September 11 ... Canada must absolutely continue to defend specifically the importance of the cultural dimension of these phenomena [dealing with increasing economic integration and responding to new security threats]. This is a contribution it must make, I believe, because Canada understands this problem and must seek to have its partners understand it, particularly the United States.[34]

Witnesses raised other challenging subjects that could, if skilfully managed, become areas of potential Canadian comparative advantage. For instance, Robert Huebert of the University of Calgary's Centre for Military and Strategic Studies highlighted the issue of Canada's control of its Arctic borders and sovereignty over the waters of the Northwest passage — the latter still contested by the United States — which, if climate change scenarios prove correct could soon become a navigable strait open to international shipping.[35] The North American dimension of Canada's foreign policy will need to take into account this new northern dimension.

In terms of a comprehensive perspective of Canada's socio-economic future, Danielle Goldfarb of the C.D. Howe Institute defined "Canada's key interests in the Canada-US sphere as obtaining secure access to U.S. markets (reducing obstacles to the flow of goods, services, capital, technology and people) while maintaining control over policies that are important to meeting our economic and social goals as a country, such as determining the profiles and numbers of permanent immigrants."[36]

Other valid Canadian objectives could no doubt be identified. The point is that the Government would be well advised to engage Canadians more directly and regularly on what priorities to pursue in terms of relations with the United States. Ultimately, government must lead in this area. But it should do so on the basis of an evaluation of our national interests and values and a firm grasp of the issues on which the Canadian public would be willing to "pay the price of difference." That is why we make a recommendation at the end of this chapter that calls for a sustained process of public engagement and consensus-building in determining Canada's objectives.

Second, the only thing worse than not having a clear direction for dealing with the United States would be a too single-minded focus on the one bilateral relationship to the exclusion of others. The era of a 1970s-style "third option" may be over. But even within

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[34] *Evidence*, Meeting No. 60, February 26, 2002.

[35] *Evidence*, Meeting No. 80, May 8, 2002. A national survey of Canadian attitudes towards relations with the United States, conducted in October 2002 for the Centre for Research and Information on Canada, revealed a notable concern over a potential loss of Arctic sovereignty. See Hubert Bauch, "A rising belief: the U.S. could swallow us up", *Montreal Gazette*, October 26, 2002.

[36] *Evidence*, Meeting No. 77, May 7, 2002.

North America we must not neglect the counterbalancing potential of our still limited partnership with Mexico. That is why the Committee devotes considerable attention in Chapter 5 to suggestions for enhancing bilateral relations with Mexico, as well as working with Mexico towards more trilateral processes and objectives. Canadian diplomacy in the rest of the Americas provides a further avenue for this counterbalancing effect. As Professor George Maclean, who has written on Canada-Mexico relations, told the Committee: "Canada's foreign interests are best served through the pursuance of multilateralism, particularly as a means of preventing a singular hemispheric integration policy designed and implemented by the United States. In short, Canada needs to maintain a balance of principal attention to the bilateral relations it has with the United States, coupled with an enhanced role in the hemisphere ... in spite of the typical interpretation of a continental vision for Canada that assumes a retreat from the multilateral legacy...."[37]

Third, Canada's ability to play a constructive foreign policy role, including vis-à-vis the United States and within North America, depends on having a diplomacy that remains truly internationalist in scope. According to Don Barry of the University of Calgary, "We should realize that the more we integrate with the United States, the less visible we become elsewhere. But Canada has important global interests. Hence we must maintain and enhance our other relationships, including those in Europe...", provided that "these relationships grow out of our national interests and that they not be used simply to demonstrate our independence from the United States."[38] Louis Balthazar, while sceptical of Canada invoking a traditional multilateralism as a "refuge" to offset the preponderance of the bilateral relationship with the United States, suggested that an independent Canadian foreign policy could in fact be perceived as an advantage to the United States in the multilateral arena. As he stated:

> ... I believe it is in the American interest that our policy sometimes be different from theirs. That allows them to use us to test the wind, given our situation in terms of international policy and the differences in our responsibilities with respect to theirs. ... this can allow us to play a certain role at times, in that we can allow ourselves to make breakthroughs in international diplomacy that the Americans cannot allow themselves to do. It gives a certain margin to do things that the Americans don't do and sometimes, to make our interests and our principles known to the leaders in Washington.[39]

The Committee believes there are many reasons to see Canada as being able to make independent choices within and beyond North America, notwithstanding the paramountcy of the Canada-U.S. bilateral relationship, the parameters of NAFTA, and other conditions of varying duration affecting our freedom of action (the focus on border security post-September 11 being only the latest and probably not the last). The hard part will be to follow through effectively with these choices after more clearly defining our national objectives, by being prepared to pay for what we say we want, and by skilfully exercising the actual diplomatic leverage that Canada is perhaps uniquely fortunate to possess while sharing a continent with the world's sole superpower.

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[37] *Evidence*, Meeting No. 75, May 6, 2002.

[38] *Evidence*, Meeting No. 80, May 8, 2002.

[39] *Evidence*, Meeting No. 60, February 26, 2002.

1.3 Debating North American Options

In light of recent opinion polls indicating considerable Canadian ambivalence over, and frustration with, closer trade relations with the United States,[40] it is not surprising that the Committee heard very mixed views on Canada's interests in deepening North American partnerships. Beyond the specific concerns expressed about the impacts, or deficiencies, of the continental free trade agreements (FTA/NAFTA) — notably over softwood lumber, farm subsidies, water, culture, and investor-state disputes under NAFTA's Chapter 11 (see Chapter 4) — these divergent views tended to colour overall stances on whether more integration of Canada within North America was a good or a bad idea.

Some argued that increasing economic integration has substantially benefited Canada and that opportunities exist to negotiate further integration on terms favourable to Canada. Others criticized the record of continental free trade. Often tying that record to critiques of corporate power, privatization, and perceived loss of democratic public control, they objected to even the current level of integration as being a threat to Canadian sovereignty, interests and values. So while some witnesses looked forward to a more integrated North America, many others clearly did not. Business spokespersons generally aligned with the first view; labour spokespersons with the second.

The first of the Committee's cross-country hearings, in St. John's, Newfoundland on February 25, 2002, sharply revealed these faultlines. Chris Vatcher of the Memorial University Students' Union stated: "As a concerned youth of this country, I definitely have concerns about moving anywhere nearer the United States.... I feel our country often plays back-up batter or something to the United States.... I urge the Committee to stress that we are a sovereign nation with our own individual concerns. Moving towards the United States model, which is definitely not sustainable and definitely in need of major adjustments, is not the answer."[41] According to Elaine Price of the Newfoundland and Labrador Federation of Labour, in the 1990s decade of free trade, "Canada became a noticeably more unequal society. Real incomes declined for the large majority of Canadians and increased only for the top fifth. Employment became more insecure and the social safety net frayed.... Contrary to conventional wisdom that the FTA and its successor, NAFTA, helped create jobs, free trade did in fact result in a major net destruction of jobs."[42] However, Sean McCarthy, representing the Newfoundland and Labrador Branch of the Canadian Manufacturers and Exporters, saw the issue as being Canada managing necessary North American relations to better advantage: "I think there have to be shared policy objectives between us and the United States.... Our economies are already linked. Further economic linkages are inevitable and beneficial. What's happened over the last ten years has proved the benefits associated with that.... In order to have a strong public policy front internationally we have to have a strong fiscal and economic front to support those goals."[43]

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[40] Adrien Humphreys, "Canadians, Americans split on benefits of NAFTA", *National Post*, September 7, 2002. The poll, done for the newspaper and Global National, showed that slightly more Canadian respondents thought the free trade deals with the United States had "hurt" rather than "helped" the Canadian economy (48% to 46%). At the same time, a still larger percentage did not know the United States accounted for over 80% of Canada's foreign trade.

[41] *Evidence*, Meeting No. 58, February 25, 2002.

Among opponents of further integration along North American lines, Professor Rod Hill of the University of New Brunswick put the case as follows:[44]

> The majority of Canadians, I think, have just no interest in this integrationist agenda, no interest from either the political or economic angle. And they must now, I think, recognize what's going on and say no to further integration with the U.S. I firmly believe we have that choice. The integrationists will pretend to you that we will pay a heavy price for this. But the facts do not support their case. They will also try to narrow the focus of the debate, to focus it on the costs of not integrating further while ignoring the benefits of retaining our policy autonomy — benefits that are not easily quantified but of course are no less important for that.

Hill cited research by British Columbia economist John Helliwell on the importance of domestic factors (which would include interprovincial trade) to citizens' welfare and the "diminishing returns of additional openness" through more external integration. Hill also warned that continental integration might jeopardize Canada's international position, citing Helliwell to the effect that: "If Canada is faced with a foreign policy choice between a globally oriented policy and one primarily focussed on continuing efforts to harmonize policies with the United States, I think the decision is obvious.... The latter policy is likely to represent bad economics and bad politics."[45] In Saskatoon, David Orchard suggested that Canada could pursue a strategy similar to that of Norway, which has twice voted to remain outside the European Economic Community.

By contrast, the Committee also heard appeals at both ends of the country (e.g., from the Atlantic Institute for Market Studies in Halifax and from the Pacific Corridor Enterprise Council in Vancouver) to strengthen natural economic ties with adjacent regions across the border and improve links to the wider continental economy, highlighting border and transportation infrastructures as key areas to work on. For some, the risk of being marginalized or cut off from the centres of North American economic dynamism was seen as the biggest risk to future jobs and incomes growth.

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[42] *Evidence*, Meeting No. 58, February 25, 2002.

[43] *Evidence*, Meeting No. 58, February 25, 2002.

[44] Evidence, Meeting No. 63, February 28, 2002.

[45] Ibid.

In terms of national strategy, supporters of integration contended that policy must face up to the realities of Canada's situation. Professor Michael Hart of Carleton University's School of International Affairs pointed to factors arising from "deepening silent integration ... [and] the fact that the institutions, the procedures, and the rules the two governments [of Canada and the United States] have in place at this particular time are more in tune with the reality of a free trade agreement, but not with the depth of integration between the two countries, a depth that now goes far beyond the free trade agreement and is more like a customs union or even a common market. I think the most important challenge the two governments face is to find the appropriate institutions and appropriate procedures and rules that catch up to this reality." In Hart's view, "we need to acknowledge that a broad convergence in policy methods and ideas already exists between the two countries.... Deepening integration between the two countries is likely to continue, and will deepen even more as the two societies become ever more connected. The question for governments, therefore, is how to manage, help, or hinder that integration."[46]

Dr. Jayson Myers of the Canadian Manufacturers and Exporters put Canada's North American challenge this way:

> Canada's economic integration with the United States is being driven by the successes and restructuring that continue to shape Canadian industry under the NAFTA. The nature of that integration, however, poses a number of key challenges for Canada and for Canadian business. It creates constraints for public policy, but the abrogation of Canadian sovereignty is not at issue, in my view. This is a debate about how best to manage our economic policy relationships with the United States and Mexico in a way that ensures continuous economic growth and the creation of high-value jobs in this country, while at the same time guaranteeing Canadians the ability to shape our own economic, social, and cultural futures.[47]

Overall then, the spectrum of views ranged from a strong rejection of a more integrated North America as a threat to Canada pursuing its own path to an equally strong embrace of a mainly market-driven integration as offering a path of opportunity for Canada in terms of Canadians' security and prosperity on the continent. Occupying a more middle ground were witnesses who accepted the need for policies to adapt to the realities of integration, but who insisted that it must be Canadian government decisions that lead and shape that response.

The Committee believes most Canadians want to see a pragmatic, not ideological, approach taken to relations with North American partners. However, our testimony revealed important divisions over whether a high-stakes "strategic bargain", of the kind advanced by Wendy Dobson among others, could or should be pursued with the United

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[46] *Evidence*, Meeting No. 55, February 5, 2002.

[47] *Evidence*, Meeting No. 55, February 5, 2002.

States in particular. Witnesses also differed over the best tactics more generally for advancing Canadian interests in continental dealings with its partners.

On one side, arguments were made that slow and steady is an insufficient strategy. As Andrew Wynn-Williams of the B.C. Chamber of Commerce expressed this view:

> … the reality is that integration is not going away, so whatever decisions we make, we must make them quickly or the opportunity to actually make a choice will pass us by. Canada has the ability to control the evolution of our relationship [with the U.S.], primarily because it's one that matters more to us than to them. … The question we are faced with is whether we are going to make incremental changes to take what comes and to adjust to the changing global circumstance as they are forced upon us, or whether we are going to approach this with bold vision and strong leadership. The Chamber believes we can't let the future happen by default.… Canada must be in the driver's seat, not the passenger seat.[48]

However, even among Chamber of Commerce representatives there were also cautionary reservations expressed about jumping into bold new initiatives such as moving towards a customs union or other formal integration agreements. While stating that Canadian business people tend to look at North America as a "single, integrated marketplace, with only minor differentiation," and that the Canadian government lacks a "strategic approach" to the Canada-U.S. relationship, Chamber Vice-President Robert Keyes observed that "reopening NAFTA could also be fraught with difficulties.… You're going to take your chances with the outcome. It's not always a win."[49] Chamber policy analyst Alexander Lofthouse added that the European Union's long experience with negotiating international trade as a bloc remains extremely difficult and conflicted along national lines, drawing the lesson that proposals for further economic integration arrangements should be investigated "with our eyes open."[50]

Some have argued that only a more comprehensive deal (Michael Hart) or a "big idea" (C.D. Howe Institute) is likely to attract serious interest in the United States. The Committee's meetings in the U.S. capital indicated to us that going beyond the existing NAFTA does not appear to be on the present political or policy agenda in Washington. Canadian sceptics of moving ahead rapidly with a major new approach to the United States at this time worry that more might be lost than gained. Louis Bélanger, Director of the Institut québécois des hautes études internationales, while advocating a more systematic rather than ad hoc approach to continental cooperation in order for Canada "to better control its asymmetrical relationship with the United States", warned that: "There's often a great temptation to reach quick compromises with the Americans, because there are some urgent short-term economic gains for us.… If we do this we are agreeing to an approach that is a losing one for Canada."[51] University of Calgary Professor Don Barry argued that "the strategic bargain concept should be approached with great caution. Apart from the formidable problem of managing trade-offs, integrative arrangements, once arrived at, are rarely reversible, create pressures for more integration, and have long-term consequences, many of which cannot be foreseen."[52]

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[48] *Evidence*, Meeting No. 76, May 6, 2002.

[49] *Evidence*, Meeting No. 89, June 11, 2002.

[50] *Evidence*, Meeting No. 89, June 11, 2002.

Professor Reginald Whitaker of the University of Victoria rejected the case put forward that "the current security crisis offers an opportunity to negotiate a grand new framework to solve some of Canada's outstanding economic problems in the Canadian-American relationship, even if we are to assume that such arrangements would be a good thing, for the purposes of argument. Rather, the current context makes such negotiations particularly dangerous for Canada. More than ever, I suggest, incrementalism is the safest route." Whitaker went on to emphasize "that entering into strategic negotiations towards closer integration with a bargaining partner that is fully committed to unilateralism and maximum maintenance of its own sovereignty, and has the clout to enforce that, seems unwise and ill-advised."[53]

The Committee agrees that witnesses' precautions about a hot pursuit of more integrated arrangements with North American partners, especially bilaterally with the United States, are a useful reminder that any integration proposals ought to be subject to a rigorous national public-interest evaluation before being proceeded with, and then only if the results of such public examinations show significant net benefits to Canada outweighing any costs. That does not mean Canadians should be content with the status quo; far from it. Ideas, whether for more or for less integration, that promise advantages for Canada should be investigated thoroughly, especially "big" ones that could affect many policy areas. We do not expect that outcomes can be predicted with certainty, even among the most pragmatic of the contending approaches to North American integration. However, the Government must be in a position to make the best assessment possible, and — as important — to share its strategic objectives with Canadians through a transparent public process. These questions are too important to be left to quiet negotiations behind the scenes.

1.4 The Impact of September 11 on the North American Agenda

What of the unanticipated circumstances that arose as a result of the September 11, 2001 terrorist attacks on the United States? How has the longer-term aftermath of those terrible events altered or reoriented the North American policy options confronting Canada?

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[51] *Evidence*, Meeting No. 60, February 26, 2002.

[52] *Evidence*, Meeting No. 80, May 8, 2002.

[53] *Evidence*, Meeting No. 76, May 6, 2002.

Most of the Committee's witnesses agreed there has been a significant impact, though many would also agree with Denis Stairs' observation to us in November 2001 that "making long-term policy in circumstances of short-term high drama will produce mistakes."[54] *September 11 emerged as a frequent touchstone in testimony* for galvanizing a more proactive Canadian approach to relations with North American partners. For example, Dr. David Zussman, President of the Public Policy Forum, one among a number of Canadian public and private organizations investigating continental integration scenarios, concluded that "September 11 has dramatically changed the nature of Canadian-U.S. relations, and the border has become a symbol of Canada's very close economic ties with the U.S., but also of Canada's vulnerability to American influence and will." Noting that "Canada's economic security is inextricably linked to the physical security of North America," he contended that "September 11 has provided an opportunity to fix" longstanding problems related to the border and immigration policies.[55]

Integration sceptics as well as proponents were quick to acknowledge the policy pressures that have been generated. As Reg Whitaker put it: "The effect of September 11 has been to intensify the twin problems of North American security and trade and to tie the two together in an unprecedented manner." Whitaker warned that "the call now is to seize the border security issue as a window of opportunity for Canada to convince the U.S. that North American integration should be accelerated and formalized."[56] Stephen Clarkson expressed concerns that, "In the context of both Mexico and Canada depending on the U.S. market to purchase nearly 90% of their exports, and in the shadow of September 11th, when Washington caused pandemonium in the board rooms of the continent by (temporarily) shutting down U.S. borders, the policy elites in all three countries are talking up the need for making another huge leap into full integration."[57]

Indeed, the Committee heard some testimony linking far-reaching integration agreements to a post-September 11 point of departure. In the words of Professor Barry Scholnick of the University of Alberta School of Business: "What you saw after

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[54] Cited by Don Barry, *Evidence*, Meeting No. 80, May 8, 2002.

[55] "Notes for a presentation at SCFAIT", February 5, 2002, p. 9, and *Evidence*, Meeting No. 55, February 5, 2002. Thomas Courchene has argued that September 11 "burst America's bubble of invulnerability" and underlines its need for international cooperation to enhance its own security. At the same time, he suggests "there is little doubt that Canada will be progressively drawn into the U.S. security orbit or security perimeter. This is sure to have implications for Canadian policy in a broad range of areas relating, at a minimum, to immigration, refugees, border controls, passport screening and the like, but presumably extending into many other areas." (Courchene, *Embedding Globalization: A Human Capital Perspective*, Institute for Research on Public Policy, Montreal, *Policy Matters*, vol. 3, no. 4, March 2002, "Postscript: September 11, 2001", pp. 46-47.)

[56] *Evidence*, Meeting No. 76, May 6, 2002.

[57] Clarkson, "The Integration Assumption: Putting the Drive for Continental Visions in Context", Submission of May 7, 2002, p. 5. Industry Canada deputy minister Peter Harder, appearing as the chair of the Government's North American Linkages project, told the Committee that "now is the time to engage in this public policy discussion", citing Wendy Dobson as putting "forward an interesting idea. She suggested that now is the time to act. Canada needs to take the lead before the U.S. is forced to react. The tragic events of September 11 are providing Canada with a window of opportunity to think big and engage the Americans. She says that ad hoc approaches are lost in the U.S. political system. A strategic bargain is not just what we give up but what we gain." (*Evidence*, Meeting No. 90, June 13, 2002.)

September 11 is the concern about the functioning of the border increasing rapidly in political circles as well as, I would argue, in the views of many Canadians. My proposal to move from the current free trade agreement to a deeper economic integration and customs union I would argue has significant political benefits in light of September 11.... I would suggest that, politically, the time right now is appropriate to introduce the idea of a customs union in both Canada and the United States."[58] Michael Hart did not go that far but stated: "I think timing is crucial. It is very difficult to get the Americans' attention, but we have that attention. We have a dialogue that is in progress, and now is the time to move ahead on it."[59] Although the Committee did not detect much interest in "NAFTA-plus" ideas from State Department and U.S. Trade Representative officials with whom we met in Washington, there have been suggestions that the fallout from September 11 could allow Canada to take over the lead from Mexico in setting such an agenda.[60] On the defence and security front, Frank Harvey agreed that "the Americans have become much more aggressive about becoming unilateral after September 11,"[61] but was among those arguing for Canada to move forward with closer military and security cooperation in areas where the growing mutual vulnerability of North Americans has underlined convergent interests with those of the United States.

On the other side, a number of witnesses were not persuaded that September 11 should necessarily evoke a Canadian response towards further integration or policy alignments with the United States. Indeed, on the contrary, Rod Hill contended that "since September 11, what went on in the United States has been seized upon in a very crass and opportunistic way by the integrationist forces to just redouble their clamour. In fact, the way I feel personally — I'm speaking again now as a citizen, not an economist — is that it's simply redoubled my view that it's more important than ever to keep our distance from the United States."[62] In terms of the trading relationship, law professor Richard Ouellet of Laval University argued that Canadian and American trade policy interests do not coincide, and the September 11 events are not "the best of reasons" for going towards North American integration.[63] His colleague Gordon Mace took the view that "those events will not change the fundamental Canada-USA relationship."[64]

Confronting the possibility of using September 11 to argue for securing a common North American space or defence "perimeter," Professor Stéphane Roussel expressed concerns that such security concepts might be too easily expanded and linked to multiple sectors of cross-border cooperation, noting that "very few sectors are excluded from the pretext of security, explaining why it is so important for Canada, in particular, to define the limits of cooperation between the two states very carefully."[65] Professor Laura Macdonald, Director of Carleton University's Centre for North American Politics and Society, told the Committee: "The events of September 11 require that we think much more carefully about where North America is going and what Canada's role in it will be.... After September 11, we've seen the return of U.S. attention to its northern ally, but we seem to be getting attention for the wrong reasons, because of the perception in the United States of Canada as a haven for terrorists. These perceptions have profound implications for Canadians." Macdonald worried that a "Fortress North America" approach could lead to a "Mexicanization" of the Canada-U.S. border, rather than more appealing "Europeanization" options, as debates over balancing free-flowing commerce and security imperatives play out in Washington.[66] These are issues the Committee takes up again in Chapters 3 and 4.

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[58] *Evidence*, Meeting No. 82, May 9, 2002. See also Rolf Mirus, "After September 11: A Canada-U.S. Customs Union", *Policy Options*, November 2001, pp. 50-52.

[59] *Evidence*, Meeting No. 55, February 2, 2002.

[60] Similar reflection is going on within some U.S. agencies that have been following the Canadian debate on the implications of September 11 for North American economic integration. See Tom Jennings, "Closer Integration Between Canada and the United States?", *International Economic Review*, United States International Trade Commission Publication 3527, May/June 2002, p. 7-10.

[61] *Evidence*, Meeting No. 61, February 27, 2002.

[62] *Evidence*, Meeting No. 63, February 28, 2002.

[63] *Evidence*, Meeting No. 60, February 26, 2002.

[64] *Evidence*, Meeting No. 60, February 26, 2002.

Most witnesses would probably agree with the assessment that, more than a year after the September 11 terrorist attacks, U.S. security concerns still predominate on the actual political agenda of North American cooperation. These are concerns also shared by many Canadians. Public opinion surveys show majorities of both Canadians and Americans supporting common border security policies and putting improved border security ahead of the easing of restrictions on cross-border trade, which was most directly affected by the measures taken in response to September 11.[67] Whereas the U.S.-Mexico relationship appears to have cooled, a closer Canada-U.S. partnership has emerged around measures oriented towards defending North America against possible future terrorist attacks. At the same time, and in a context of growing assertion of U.S. power, as Daniel Cohn put it succinctly: "The price of difference has gone up as of September 11 — no doubt about it."[68]

1.5 Towards a Strategic North American Policy Direction for Canada

So what is to be done? The first point to make is that Canada, and Canadians, have some choices to make, as a sovereign country and in the North American context post-September 11. The Committee takes the view that we do have policy options and substantial room to manoeuvre even in policy areas most affected by increased continental integration[69] and by new security imperatives. We note, moreover, that Canadian policies have continued to diverge from those of the United States on major matters of global import, such as the International Criminal Court, the Kyoto Protocol, and Iraq. Nor is Canada's formal legal sovereignty in question or at issue. Rather, the point about choices is to ask: what are the aims of asserting Canadian sovereignty in international relations and in affected domestic policy areas? And in the continental context: what are the purposes of pursuing closer collaboration with North American partners, or alternatively, more autonomy and an accentuation of differences?

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[65] *Evidence*, Meeting No. 77, May 7, 2002. A cautionary example used by Roussel was U.S. Ambassador Paul Cellucci's December 19, 2001 appeal for continental energy cooperation on security grounds.

[66] *Evidence*, Meeting No. 88, June 6, 2002.

[67] For example, the survey commissioned by the Centre for Research and Information on Canada (CRIC), the School of Urban and Public Affairs at the University of Texas at Arlington, and *Publius: The Journal of Federalism*, released in Montreal June 20, 2002 (for details, see www.cric.org).

[68] *Evidence*, Meeting No. 78, May 7, 2002.

In the Committee's view, there remains a need to define more clearly where Canada's national public interests lie in regard to North American objectives, and having done that, to be prepared to pay for what we say we want. In our view also, it is important not to limit unduly our choices of North American policies by prejudging them either on grounds of ideology or misplaced symbolism. Options need to be examined on their merits. Reg Whitaker, although a noted sceptic of pursuing a big "strategic bargain" with the United States, made a telling point in this regard when he stated:

> ... national sovereignty should not be understood as an end or objective in itself. Sovereignty should be a means to an end, which is a better life for Canadians. Limitations on sovereignty that serve this end should not be rejected for nationalistic reasons. Ideas like a customs union, common market, or other structural frameworks for North American integration might indeed serve that end of a better life for Canadians. The benefits, of course, have to be carefully assessed and balanced against the loss of sovereignty that would be entailed. But such big ideas are legitimately on the table for debate.[70]

The first choice to make, however, is how much priority to give to developing and managing our North American relationships. That choice concerns, above all, our relationship with our most important bilateral partner, the United States. But it also includes our relations with Mexico (and perhaps beyond that with the Americas, as a bridge linking our North American to our hemispheric policy interests). While Canada should maintain its own global perspective and seek diversified opportunities,[71] we cannot afford the luxury of imagining ourselves to be isolated from a North American destiny, unless we are prepared to ignore geo-economic realities and pay almost any price. The Committee believes the Government should therefore explicitly affirm North American relations as a top priority.

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[69] That case is also put forward in a recent book, George Hoberg, ed., *Capacity for Choice: Canada in a New North America*, University of Toronto Press, Toronto, 2001.

[70] *Evidence*, Meeting No. 76, May 6, 2002.

[71] With respect to foreign economic policy, a former Canadian minister of international trade, Roy MacLaren, has warned that: "The prospect of pursuing successful policies distinctive in terms of our history, traditions and values, let alone a degree of independence in monetary and fiscal policy, is dim if we do not diversify the sources of our affluence." ("Wanted: EU trading partners", *The Globe and Mail*, August 16, 2002, p. A11) Such diversification cannot simply be dictated from the top, however, since it needs to reflect national interests perceived by and acted on by Canadians if it is to have much prospect of success. (See also Drew Fagan, "It's time we faced facts: Canada's focus must be on North America", *The Globe and Mail*, August 16, 2002, p. B8.)

At the same time, there is nothing manifest about this destiny that determines it must be on U.S. terms. To the contrary, the Committee is concerned about what will happen if Canada does not move vigorously to assert its own continental vision and agenda. The danger is that, despite the shock of September 11, we could fall back into drifting along until forced again into a defensive, reactive mode. The result of that would likely be a weaker international position for Canada, not a stronger or more autonomous one.

Given the overarching issues that have been raised, the Committee urges the Government in the following series of recommendations to take the initiative in promoting a Canadian national-interest agenda for our North American relations. Moreover, in approaching such a Canadian policy agenda, we agree with Daniel Schwanen of the Institute for Research on Public Policy, that for a functional level of integration and political cooperation serves Canadian interests to be achieved, there is no reason to assume common or harmonized policies are inevitable, necessary, or even desirable. Indeed, much can be accomplished through mutual agreements designed to facilitate shared objectives and build confidence — as in the "smart border" initiatives Canada is already pursuing with the United States. But beyond that, as he put it well:

> ... Canada requires a global strategy relating to the future of North American relations. We cannot simply limit ourselves to a day-to-day approach and an ad hoc response to whatever crisis may arise. I have every reason to believe that we will have to invent our own integration model, a model that is peculiar to Canada and the United States, and perhaps Mexico as well, as we have already done in the case of trade relations, rather than importing a European model or rallying around concepts such as a monetary or customs union, for want of a better solution.[72]

The Committee believes it is clearly time to devote serious attention to elaborating such a North American strategy.

Recommendation 1

The Government of Canada should explicitly make Canada's relations with its North American partners an overall policy priority. In that regard, and particularly in terms of defining the North American dimension of Canadian foreign policy, the Government should elaborate a coherent public strategy for advancing Canadian interests and values in the context of North America, including Mexico, beginning with its comprehensive response to the recommendations in this report.

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[72] *Evidence*, Meeting No. 64, February 28, 2002. See also Schwanen, "After September 11: Interoperability with the U.S., Not Convergence", *Policy Options*, November 2001, p. 46-49.

A second point that emerges strongly from the Committee's study is that capabilities — adequately resourced and coordinated policy instruments — are needed in order to follow through and effectively implement the choices arrived at through strategic policy development and public deliberation. Only on that basis can we expect Canadian approaches to be taken seriously by our American and Mexican partners. In our preliminary report of December 2001, we cited then-Foreign Minister John Manley's acknowledgement that Canada has allowed its international policy capabilities to decline. Those were choices Canada made; we cannot blame others for them. Although the Government has increased security-related spending in response to September 11, that assessment remains apt a year later, and Mr. Manley is now in the key position of Finance Minister and Deputy Prime Minister.

As important as sufficient resources is leadership in coordinating the various actors, policy elements and mechanisms that must be involved in managing an increasingly complex North American relationship. Here, too, deficiencies abound; a case in point is the longstanding border problems, which received at best intermittent political attention prior to September 11. As David Zussman told the Committee: "One of the things we learned at our borders conference is that the large number of federal departments and agencies, as well as provincial organizations with an interest in border and Canada-U.S. relations issues, makes it difficult for the federal government to develop a consistent response and consistent strategy. Our governmental machinery is outmoded and not working as well as it might."[73] Veteran Canadian-American relations scholar Stephen Clarkson has argued that Canadian diplomacy in Washington "practises the ad hoc, reactive, crisis-management techniques it had worked out before free-trade times," and that Canada's federal government has not yet developed "a capacity to deal with Canada's multifaceted American relationship in an institutionally coordinated manner."[74]

Matters may not be as problematic as such observations suggest. But the Committee believes they point to factors that could inhibit the assertion of the strong and credible Canadian policy framework towards North America that our first recommendation calls for. Budgetary constraints over the past decade have affected Canadian foreign policy capacities, and there is a need for reinvestment. Responsibilities for key North American issues are divided among ministers, departments, and agencies. In the case of current Canada-U.S. relations, the Deputy Prime Minister has retained certain responsibilities in the area of cross-border security that might normally be those of the Minister of Foreign Affairs. The Department of Foreign Affairs and International Trade (DFAIT) has established a North American Bureau, but it is Industry Canada's deputy minister who chairs the North American Linkages project of the government-wide Policy Research Initiative. And so on. The point is not to question the different roles that are being performed as circumstances may warrant; rather, it is to underline the need for both adequate resources to do the job and adequate means of coordinating these policy efforts across the government.

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[73] *Evidence*, Meeting No. 55, February 5, 2002.

[74] Clarkson, "Don't give it away, Mr. Chrétien, protect it", *The Globe and Mail*, August 9, 2002, p. A11.

In the Committee's view, DFAIT must also be in a position to contribute leadership in developing a strategic vision for the North American dimension of Canada's international relations. That role should also be pursued within a more coherent overall approach by the Government to the totality of our North American relations, given how crucial these are to Canada's domestic security and prosperity, as well as to our place in the world. Coherence and coordination in this regard might be strengthened through inter-departmental and inter-agency mechanisms. But more than bureaucratic attention is needed. Ministerial leadership is required to be exercised, both through DFAIT and collectively at the Cabinet level.

Recommendation 2

The Government should address Canada's diminished international policy capabilities in the next and future budgets, ensuring that sufficient resources are provided to allow the Department of Foreign Affairs and International Trade to provide leadership in developing and implementing a strong, credible, strategic framework for Canada's relations with its North American partners.

Recommendation 3

The Government should also ensure that there is coherence and coordination among all federal activities in which significant North American relationships are involved. To that end, consideration could be given to creating a special Cabinet Committee on North American Relations. Such a high-level committee could be co-chaired by the Deputy Prime Minister and the Minister of Foreign Affairs and could include other ministers with important responsibilities that relate to North American issues.

A third and final point is that the federal government cannot do this alone. Of course some elements of building a better North American partnership require the willing engagement of Canada's American and Mexican partners. That is probably more difficult to achieve with a United States preoccupied by issues of "homeland" security; moreover, as witnesses such as Stephen Blank emphasized to the Committee, such engagement needs to reach beyond the U.S. capital to all parts of the American political system if it is to be effective. It is not just a matter of having the right ideas, even assuming we can be confident about what those are (and we have suggested that, for example, a sweeping continental "strategic bargain" should be approached with prudent caution requiring further study and debate). Indeed, the point was made by Danielle Goldfarb of the C.D. Howe Institute that "a great vision, a great framework, no matter how interesting, proactive, or beneficial to Canada, will effectively go nowhere in terms of the Canada-U.S.

relationship if we are not able to engage the Americans."[75] We will have more to say on this in Chapter 5.

What is just as important to underline at this stage is that any framework for North American relations worth pursuing will also go nowhere, and deserve that fate, unless it engages Canadians first. Such a framework or strategic vision should seek to reflect a substantial national consensus on how best to both protect and promote Canadian interests and values through relations with our North American partners. Building that consensus may be difficult, but it is a necessary task that should be initiated and led by government rather than left to the private sector and non-governmental groups. One way to begin the process might be to convene a national roundtable (and perhaps also regional roundtables) on North American relations following the release of a public strategy paper. Such a process could be carried on and refined as warranted in response to evolving circumstances.

In addition, the design and implementation of a Canadian framework should take into account the interests of non-federal levels of government (provinces, territories, and municipalities), which are increasingly involved in and affected by important aspects of North American relations. While respecting both the particular role of the federal government in foreign policy and the constitutional responsibilities of other levels of government, consideration could be given to involving all levels of government in cooperative working arrangements aimed at strengthening policy development and implementation in regard to Canada's relations with its North American partners.

The crucial task, in the Committee's view, is to think about ongoing collective processes that will encourage a focus on Canada's objectives in North America, and on the best means for governmental representatives to achieve them, in the long-term interest of all Canadians.

Recommendation 4

In order to encourage further public engagement focused on Canadian objectives in North America, the Government should consider convening national and/or regional roundtables on North American relations following the public release of an initial policy statement. Such a consensus-building process should be carried on as warranted by evolving circumstances.

Recommendation 5

Given the increasing involvement of non-federal actors in many aspects of North American relations, the Government should consider how best to take into account the interests of other levels of

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[75] *Evidence*, Meeting No. 77, May 7, 2002.

government — on a cooperative basis and through an established process of consultation with provinces, territories, and municipalities — within an evolving Canadian strategic policy framework for advancing these relations.

CHAPTER 2: UNDERSTANDING A CHANGING NORTH AMERICA

There will always be issues that the United States, Canada, and Mexico would rather not hold in common, but even then North America will remain a reluctant trinity, always together, though not always in agreement. Our futures are overlapping whether we like it or not.

Anthony DePalma,
Here: A Biography of the New American Continent,
Public Affairs, New York, 2001.

A. GROWING NORTH AMERICAN LINKAGES, BUT DISPARATE SOCIETAL REALITIES AND DISTINCT NATIONAL IDENTITIES

Geography makes Canada a North American nation — combined, especially in the case of the United States, with historic friendship, alliances and partnership, as President John Kennedy famously underlined in an address to the Canadian Parliament in 1961.[1] As the Committee has argued in Chapter 1, however, there is nothing necessarily "manifest" (in the sense of destiny preordained, or options foreclosed) about the trajectory of Canada's relationship with its powerful neighbour, or about the future shape of a post-NAFTA North American region that includes more integrated relationships with Mexico as well. Indeed we share a continent, but how we share it is still a matter for Canada and Canadians to decide.

Canada's place within North America has been debated for as long as there has been a Canada.[2] Yet entering a new century may mark a new and much more complex phase in what has been a long, uncertain, even "ambivalent" evolution. Whither, then, a changing Canada within a changing North America? Do we have a sense of the Canada we want in terms of the North America we want? Or have we only just begun to ask that kind of question, despite the enormous economic linkages with our NAFTA partners that dwarf all of our other trade and investment relationships combined?

The American journalist "biographer" of North America Anthony DePalma laments: "We know North America exists, but we do not know North America." Yet he goes on to suggest: "The drug trade, international trade, immigration, cultural exchange, mass communications, shared defense — all are linkages across our borders that are leading inevitably toward the integration of North America into a single, seamless entity."[3] This leap of logic was written before September 11, 2001; no doubt the common imperatives of protecting North Americans from terrorism would now be added to that list. Most Canadians, however, would doubtless contend that the pursuit of closer relations among North American partners, based on certain concrete mutual interests, is very different from the highly institutionalized path of complicated political as well as economic integration on which European Union members states are presently embarked.

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[1] *Hansard*, May 17, 1961. What he actually said was: "Geography has made us neighbours. History has made us friends. Economics has made us partners. And necessity has made us allies. Those whom nature hath so joined together, let no man put asunder." (p. 4963)

[2] See, for example, W. Andrew Axline, ed., *Continental Community? Independence and Integration in North America*, McClelland and Stewart, Toronto, 1974; Alan Smith, *Doing the Continental Conceptualizations of the Canadian-American Relationship in the Long Twentieth Century*, Canadian-American Public Policy, No. 44, December 2000.

For most Canadians, the prospect of a similar North American union emerging is unlikely, even in the longer term.[4] In a highly varied continental landscape, marked by obvious asymmetries among the partners, the destination of relations remains uncertain. As acknowledged in a recent government-supported research report on future scenarios for North American integration, and as testimony before the Committee confirmed, counter-integration scenarios can also be envisaged that might seek instead to affirm a broader multilateralism, to distance Canada from North American partnerships, or to derail deeper integration options. The more likely prospects, however, would seem to be for a continuation of the mainly bilateralist status quo, perhaps in an enhanced form, or for some further institutionalization — albeit probably quite limited — of North American relations along trilateral lines.[5]

The Committee will address in Chapter 5 some of the more speculative of these options, including calls for building a trilateralist "North American community" — notably the case put forward to us by academic policy advocates like Dr. Robert Pastor[6] as well as the "North American vision" embraced by leading members of the Fox administration and others in Mexico. What we want to concentrate on at this stage is getting a clearer grasp of some of the main features of the North American empirical landscape. We also refer to recent surveys of public attitudes in the three countries that will continue to condition the environment for Canadian policy responses, whether or not any of those futuristic integration ideas are eventually taken up.

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[3] DePalma, *Here*, p. 2 and 14.

[4] However, research on public opinion from a 1990 World Values Survey (i.e., pre-NAFTA) has shown somewhat surprisingly that 24% of Canadian respondents (along with 25% of Mexicans and 46% of Americans) at that time supported "doing away with borders" in North America. (Inglehart, Nevitte and Basanez, *The North American Trajectory: Cultural, Economic and Political Ties Among the United States, Canada, and Mexico*, 1996, p. 145.) In sketching an outlook for North American integration, these authors conclude: "Our evidence does indicate that the reasons for maintaining borders are not as strong as they once were. The historical logic that kept these countries apart does not apply to contemporary circumstances for significant proportions of these publics. Indeed, given the right conditions, it does not apply to a majority of citizens in *any* of these states. North America may be closer to economic union than most people imagine. In the more distant future, even political union may be on the agenda." (p. 171)

[5] Policy Research Initiative, Report on the Conference held at Carleton University, May 12-13, 2002, *Strengthening the North American Partnership: Scenarios for the Future*, Ottawa, released August 2002 and available at www.policyresearch.gc.ca. That report outlines three possible scenarios under conditions of continuing integration: (1) "bilateral asymmetric North America" — in which there are "incremental increases in cooperation and coordination" but existing inter-governmental patterns prevail; (2) "confederation North America" — in which linkages are intense, actors "identify first and foremost with North America", and there is a "rich panoply of continental institutions"; (3) "consortium North America" — seen as a "more feasible ... middle ground" in which "three national states with clear identities work together on a range of functional tasks". (For a more historically-rooted conceptualization of Canada's varied North American integration options, see also George Hoberg, "Introduction: Economic, Cultural and Political Dimensions of North American Integration", Chapter 1 in Hoberg, ed., *Capacity for Choice: Canada in a New North America*).

[6] See *Evidence*, Meeting No. 56, February 7, 2002. Pastor outlines his comprehensive agenda in detail in *Toward a North American Community: Lessons from the Old World for the New*, Institute for International Economics, Washington, D. C., August 2001.

BOX 1
THE REGION IN SOCIO-ECONOMIC PROFILE

North America is the largest economic region in the world. Home to 413 million residents, Canada, the United States and Mexico account for about 6.8% of the world population, but together produce over 37% of total global economic output each year. Gross Domestic Product (GDP) for the continent is estimated at US$11.5 trillion for 2001, comparable to the economic production of Japan and the 15 countries of the European Union combined.

As the largest national economy worldwide, the United States is unquestionably the economic powerhouse within North America. The United States accounted for close to 89% of all North American economic output in 2001. Canada ranks as the next largest economy in the region and eighth-largest in the world, slightly ahead of Mexico, the two countries contributing approximately 6% and 5% respectively of North America's GDP in 2001.*

While Canada, the United States and Mexico share a common economic space, there exist considerable economic and social differences among the three countries. Unlike common markets such as the European Union, where most countries enjoy a comparable standard of living, there is a wide gap in incomes and quality of life indicators between Canada and the U.S. on one hand, and between either of these and Mexico on the other.

Canada and the United States are among the wealthiest countries in the world. On a per capita basis, the United States is the second-richest country in the world, behind only Luxembourg, while Canada is the seventh-wealthiest. By contrast, Mexico is still considered to be a developing country. Economic production in Mexico was equivalent to just over US$9,000 per person in 2000 — about a quarter of the level in the United States. Mexico is ranked fifty-fifth in GDP per capital.

Similarly, quality of life indicators rank Canada and the United States far ahead of Mexico. Life expectancy at birth in Canada is more than ten years longer than in Mexico and the infant mortality rate in Canada is less than a quarter the level in Mexico. Literacy and post-primary education enrolments are much higher in the United States and Canada than they are in Mexico. As well, income is far more evenly distributed in Canada and the United States than in Mexico, and poverty levels are much lower.

While Mexico lags behind Canada and the United States in most indicators of economic health or standard of living, it has seen a remarkable improvement in many of these indicators in the recent past. To list a few: life expectancy in Mexico has increased by more than ten years since the 1970s; the infant mortality rate has fallen by over two-thirds; adult literacy is climbing; and the fertility rate has more than halved. Mexico also has a far younger population than either Canada or the United States, improving the prospects for long-term economic growth in that country.

The combination of healthy economic growth and improving social and health conditions in Mexico have resulted in a considerable improvement in that country's score on the United Nations Human Development Index (HDI). Since 1975, Mexico's HDI value has increased by 10.7 percentage points, compared with increases of 7.2 points for Canada and 7.6 points for the United States. According to the *2002 Human Development Report*, Mexico's 2000 HDI value of 0.796 puts it in 54th place, just below the "high human development" category, and compares with a 2000 HDI value of 0.94 for Canada (ranked 3rd) and 0.939 (ranked 6th) for the United States**.

Comparative Statistics on the NAFTA Countries

		Canada	U.S.	Mexico
Total population (millions)	2000	30.8	283.2	98.9
GDP per capita	$	27,840	34,142	9,023
(PPP $U.S.)	ranking	7	2	55
UN Human Development Index Ranking	2000	3	6	54
Income inequality	poorest 10%	2.8	1.8	1.3
(share of income - in %)	richest 10%	23.8	30.5	41.7
Life expectancy at birth	1970-75	73.2	71.5	62.4
(years)	2000	78.8	77.0	72.6
Total fertility rate	1970-1975	2.0	2.0	6.5
(per woman)	1995-2000	1.6	2.0	2.8
Infant mortality rate	1970	19.0	20.0	79.0
(per thousand)	2000	6.0	7.0	25.0
Adult literacy rate	1985	99.0	99.0	85.3
(% age 15 and over)	2000	99.0	99.0	91.4

Source: UN Human Development Report - 2002

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[*] Calculations using data from the International Monetary Fund (IMF). Available at: www.imf.org/external/pubs/ft/weo/2002/01/data/index.htm.

[**] Detailed comparative data by country are available at : www.undp.org/hdr2002

As indicated by the regional socio-economic profile in Box 1, and as thoroughly reviewed in this chapter's Section B overview of an emerging North American economic space, the facts of intensified economic linkages among Canada, the United States, and Mexico are hard to escape. Indeed, by the end of the 1990s, eight of ten Canadian provinces were trading more internationally than interprovincially,[7] and the volume of Canada's NAFTA trade is now double that of interprovincial trade. Mexico has become even more trade-dependent on the U.S. market than has Canada, and in an even more asymmetrical way. During the past decade these growing linkages have also been accompanied by government policy agendas that, with certain protectionist exceptions, have broadly supported a liberalization of flows of goods, services, investment and capital, if not labour, across the continental economy.

The wider impacts of these North American economic trends have been variable, as well as difficult to disaggregate — for example, from more general factors such as government cutbacks to eliminate budget deficits, technological change or other "globalization" forces. In estimating net gains or losses, William Kerr of the Estey Centre for Law and Economics in International Trade also pointed to "the very long adjustment process that takes place when you put in a major trade liberalization like the NAFTA."[8] Supporters as well as critics of the trade agreements have found fault with Canadian socio-economic performance since their entry into force. For example, Jayson Myers told the Committee that Canada "has become a relatively poorer market over the past ten years as a result of declining per capita incomes and a depreciating dollar.... Canada runs the risk of becoming a marginalized economy within North America."[9] For their part, labour spokespersons and civil society critics of the free trade agreements often contended that there has been little evidence of promised productivity or real wage gains. At the same time, Professor Teresa Cyrus referred to research indicating that trade exposure seems to have played little part in rising poverty levels or income inequalities.[10] Solid data are often hard to come by or contested as to interpretation, even in regard to NAFTA's economic effects. It is unsurprising, then, that a forthcoming critical review of NAFTA by a Canadian analyst finds its broader social impacts to be difficult to evaluate and cautions that official promotional claims should be balanced against more troubling observations.[11] There is a continuing need to deepen understanding of the full impacts of North American integration, taking into account a range of related public concerns in all three countries.

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[7] The exceptions were Nova Scotia and Prince Edward Island. See Daniel Drache, "Integration without convergence? The North American model of integration", *Canada Watch*, York University Centre for Public Law and Public Policy and the Robarts Centre for Canadian Studies of York University, November-December 2000, vol. 8, nos. 4-5, p. 65. The most recent data indicate that all provinces are now trading more internationally than interprovincially, although the continuing importance of domestic market preferences should not be underestimated. For further analysis see John Helliwell, Frank Lee and Hans Messinger, "Effects of the FTA on Interprovincial Trade", chapter 2, in George Hoberg, ed., *Capacity for Choice: Canada in a New North America* (2002)

[8] *Evidence*, Meeting No. 83, May 10, 2002.

[9] *Evidence*, Meeting No. 55, February 5, 2002.

[10] *Evidence*, Meeting No. 59, February 26, 2002.

As shown by the data in Box 1, all three countries of North America have recorded a progressive rise in "human development" performance indicators during the period of freer trade. Relative disparities remain a major policy challenge, however, with Mexico as a whole still far behind Canadian and American living standards. Research presented to the Committee by Dr. Mario Polèse also showed some parts of North America to be better positioned to benefit from liberalized continental economic linkages than others. For example, within Canada, Ontario has increased its economically dominant position; within Mexico there is a sharp north-south divide.[12] Obviously, persistent regional and social disparities are a challenge to governments in terms of developing policies that can respond adequately to both the combined and the uneven impacts of these economic changes across North America. That is also a shared trilateral challenge about which we will have more to say in Chapter 5. To date, however, there has been little policy deliberation in common among the three countries in that regard. There is even less sense of a shared North American *"projet de societé"*, despite debate during the NAFTA negotiations about adding a NAFTA "social dimension" and current Mexican President Vicente Fox's championing of a broader development "vision" for North America. Even between Canada and the United States, high and growing levels of economic interdependence do not seem to have led to as much policy convergence as might have been expected, desired, or feared.[13]

With respect to public attitudes and feelings about national identities, a similarly complicated and often ambiguous picture emerges across North America from the plethora of polls probing Canadian, American, and to a lesser extent, Mexican opinions, in particular since September 11, 2001. Sometimes these serial snapshots of the public mood do more to confuse than to clarify. Nonetheless, among the most consistent findings are that majorities in the three countries have become more comfortable with the idea of closer economic relations (if remaining ambivalent about who benefits from agreements like NAFTA); yet at the same time, most citizens also remain attached to maintaining differences in national public values and separate political identities.

This kind of national consciousness certainly appears to characterize general Canadian public opinion and indeed may have become more pronounced, even while private-sector elites have increasingly tended to favour continental integration.[14] An updated analysis from the World Values Survey comparing 2002 with 1990 data shows that Canadian respondents' support for closer economic ties with the United States had increased (to 79% from 71%), as had support for "doing away with the border" (to 35% from 24%). However, the evidence also showed a *positive* association between support for closer Canada-U.S. economic ties and "higher levels of Canadian national pride." That finding leads Neil Nevitte to conclude that this, along with a variety of distinctive value differences and concerns about culture, makes political integration an unwelcome prospect to most Canadians. At the very least, therefore, we should be careful about jumping to assumptions about that prospect being a sort of "slippery slope" following inexorably from the "spillover" effects of ever deeper economic integration.[15]

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[11] John Foster, "NAFTA at Eight: Cross Currents", in *USA and Canada 2003*, 5th edition, Europa Publications, London, forthcoming December 2002; cited with permission. For contrasting American and Mexican assessments of NAFTA's performance, see also the debate "Happily Ever NAFTA?", in *Foreign Policy*, September/October 2002, p. 58-65.

[12] *Evidence*, Meeting No. 89, June 11, 2002.

[13] Cf. Drache, "Integration without covergence? The North American model of integration", *Canada Watch*, Special double issue on Canada-U.S. relations in the new millennium, November-December 2000; also Hoberg, ed., *Capacity for Choice: Canada in a New North America*, esp. chapters 9 and 10.

Findings from a major ongoing public opinion research project being carried out in the three countries by EKOS Research Associates, as released to a June 2002 conference on North American integration, suggest patterns of divergence as well as convergence (which should perhaps not be surprising, viewed in historical perspective).[16] Consider, for example, the following conclusions from this unique trinational survey as presented by EKOS President Frank Graves:[17]

- Although Canadians, Americans, and Mexicans share many similar values, the "value gap" is widening between Canada and the United States;
- A sense of national identity is rising in North America, in contrast with the situation in Europe (67% of Canadian respondents see themselves as Canadian only, rather than having any North American identity);
- Canadians are more supportive of NAFTA and trade liberalization than Americans or Mexicans (support was more positive than negative in all three countries), and a majority (albeit a declining one) see Canada as becoming more like the United States; most Canadians, however, would prefer to see Canada-U.S. differences being maintained or widened;

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[14] For example, 1999-2000 survey data from EKOS Research Associates indicate that, whereas 37% of private-sector elite opinion favoured Canada becoming "more like the U.S.", only 14% of general public opinion was of that view. Nonetheless, 55% of the general public agreed that over the last 10 years Canada "has become more like the U.S.". (Frank Graves, "Identity, Globalization and North American Integration: Canada at the Crossroads", Speaking notes for address to the Canadian Club, Ottawa, January 16, 2001, p. 12-14.)

[15] Neil Nevitte, "Ten Years After: Canadian Attitudes to Continentalism", in Edward J. Chambers and Peter H. Smith, eds., *NAFTA in the New Millennium*, UC Regents, 2002 forthcoming.

[16] For example, Thompson and Randall conclude that: "there are fundamental differences that transcend issues of raw power between the two nations [of Canada and the United States]. Some social scientists suggest an increasing convergence in values among all three North American countries. Any apparent tendency toward convergence, however, must be viewed through the lens of persistent divergence and ambiguity. More than two centuries of ambivalence must surely temper any conclusion that the continental agenda of the 1990s points the way to a twenty-first century in which there will be a new consensus and convergence between Canada and the United States." (*Canada and the United States: Ambivalent Allies*, third edition 2002, p. 325)

[17] Based on the summary of his remarks prepared by the Public Policy Forum, *Rethinking North American Integration: Report from the PPF/EKOS Conference, June 18, 2002, Toronto*, Ottawa, n.d., p. 5, 10 and 17, and appendices D 1-3.

- There is little support for proposals such as "dollarization", and most Canadians would prefer "North Americanization" to "Americanization";

- The proportion of Canadians who think it likely that Canada will become either part of the United States or part of a "North American Union" in the next 10 years is declining (from 23% to 17%, and 49% to 31%, respectively);

- "North America resembles a mosaic rather than a community," and for the foreseeable future, "unique national communities are likely to limit integration to the sharing of economic space."

Several more recent surveys of Canadian public opinion on continental relationships have been conducted for the Canadian Centre for Research and Information on Canada (CRIC) in connection with a series of "BorderLines" conferences focusing on the future of Canada-United States relations.[18] These polls show that many Canadians want to see Canada taking an independent approach in both domestic and international affairs and are opposed to an "Americanization" of Canada's policies. As CRIC Assistant Director for Research Andrew Parkin has stated:

> Analysis of this particular data shows that Canadians feel that they have values and public policies that are distinct from those of the US and that this distinctiveness is worth preserving.... However, this is not an expression of anti-Americanism. The polls also show that Canadians favour close cooperation with the US in economic matters and North American security. What it means, quite simply, is that Canadians value their distinctiveness and wish to preserve their independence.[19]

With respect to Canada-U.S. economic cooperation, CRIC's most recent survey, conducted by the polling firms CROP and Environics Research Group in September-October 2002, shows that 63% of Canadian respondents support free cross-border movement of labour, and 53% think having a common currency with the United States would be a good idea, though a majority would oppose Canada adopting the U.S. dollar. Overall, Canadians' evident support for growing economic ties needs to be seen in a context of continuing sovereignty concerns and strong attachment to distinctive Canadian public values. As Andrew Parkin has summarized these findings:

> Canadians favour economic cooperation with the US, even to the point of supporting a cross-border job market or a common currency, both of which are already in place in the European Economic Union. But they do not want to adopt the US dollar, nor do they want to harmonize banking or tax policy. And, clearly, they draw the line at bulk water exports, because they see the country's fresh water reserves as a cherished possession that is not for sale. Canadians want to

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[18] The first of these conferences was held in Calgary in September 2002 and the second in Montreal in November 2002. Full information about the conference series can be accessed at www.borderlines.ca; and full details of the opinion surveys are available on the CRIC website at www.cric.ca.

[19] Montreal, CRIC press release, October 28, 2002. Available at www.cric.ca.

> pursue economic cooperation with the US without throwing away the country's independence or compromise its most unique features.[20]

Other recent polling data from the Centre for Research and Information on Canada suggest that the effect of September 11 on Canadian attitudes had waned a year later. While only 13% of Canadians surveyed wanted more distant ties with the United States immediately following the terrorist attacks, that number was back up to 35% in September 2002, and only 28% wanted closer ties. Majorities ranging from a low of 60% in Ontario to a high of 80% in Saskatchewan also saw the United States as benefiting more from bilateral trade, no doubt reflecting frustration over current irritants. As well, nearly three-quarters saw Canada as offering a better quality of life than the United States, with that view most strongly held by young Canadians.[21]

In short, what the next steps should be in North American partnership are far from obvious, much less automatic or "inevitable", on the basis of such varying and at times conflicting trends. In the Committee's view, this should be seen less as a problem than as an opportunity to shape the future in accord with Canadian public values and interests. This is an opportunity for policy development to catch up to the dynamic factors of growing cross-border linkages in a challenging context that international relations scholars and students of Canada-U.S. relations have described as one of asymmetrical "complex interdependence."[22] It is also an opportunity that reinforces the argument we made in Chapter 1 about options remaining open for Canada in making the political choices that will surely be necessary to respond to a changing North America.

Witness Perceptions of North America's Future

In an early panel, George Haynal, former Assistant Deputy Minister (Americas) in the Department of Foreign Affairs and International Trade, answered his own question "But what is North America?" as follows:

> North America at this stage is three countries of great diversity: the world's dominant power; a middle-level industrial democracy in the front ranks of the modern world; and a large, dynamic, emerging, developing country. Between them, these three countries have four relationships, some much better developed than others. The two that are organic and have historic roots and enormous power are

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[20] Ibid.

[21] Lynn Moore, "Canadians frustrated with U.S. poll finds", and " 'Charter generation' backs Canada's quality of life", *The Ottawa Citizen*, September 7, 2002, p. A1 and 7.

[22] On the concept of "complex interdependence", see Robert Keohane and Joseph Nye, *Power and Interdependence*, Little, Brown and Company, Boston, 2nd edition, 1989; and on the past indeterminacy of the relation between trade interdependence and Canadian foreign policy independence in the Canada-U.S. context, Gerald Schmitz-LeGrand, "Le destin n'est pas inéluctable: évaluation des effets probables du libre-échange nord-américain sur la politique étrangère du Canada," *Études internationales*, Vol. XXII, No. 1, March 1991, p. 81-136 (originally presented as a paper, "Destiny Not Manifest: Assessing the Probable Effects of North American Free Trade on Canada's Foreign Policy," to the annual meeting of the Canadian Political Science Association, Victoria, B.C., May 1990).

> those between Canada and the United States and between the United States and Mexico. The other, between Canada and Mexico.... is now being built, and being built in unusually imaginative ways. The last ... is the trilateral relationship, one that would build in North America a form of community.[23]

That statement neatly sums up the past and current situation of triple-bilateral/trilateral North American relations as prologue to future possibilities for the North American relationship as a whole. The Committee will examine the promise of Canada-Mexico and trilateral relations in detail in Chapter 5. But what we want to note here is that the extent of that promise largely depends, in the first place, on how much effort Canadians are willing to devote to pursuing the full potential of these multi-level North American relationships.

Not surprisingly, some critics and sceptics of North American integration had little patience with this discussion. Rod Hill declared: "I see no reason that we should start thinking of ourselves as North Americans.... That's an integrationist mindset.... Where has Pearsonian internationalism gone?" He added for good measure: "I see nothing special about Mexico just because it happens to be on the same geographic continent. I think we should think of ourselves as citizens of the world rather than promoting the idea that we're North Americans in some sense, because we're not."[24] David Orchard drew on historical grievances to argue for an aggressive rejection of closer Canada-U.S. ties. Anything else would be "giving up", he contended.[25]

Others were more open to prospects for North American partnership but attached strong caveats to the ends and means of its construction. Stephen Clarkson agreed that, "There is no question that North American integration — and therefore Canada's place in the new continental architecture — is the policy issue of the moment." However, he concluded: "We need to recognize that the only legitimate goal of government is to enhance, not diminish, the quality of life for Canadians — and in terms defined by us, not by Uncle Sam."[26] Laura Macdonald saw arrangements that remain rather ill-defined, uneasy, and incomplete, suggesting we need to ask not only what North America is, but "what kind of North America?" As she explained:

> North American is a region that has sprung up without much thought having been put into its future outlines, its architecture, if you will.... Prior to September 11 there was concern in Canada about the apparent decline of Canada's relevance in Washington, as a result of the rise in power of the U.S. Southwest, Latino voters, and the growing prominence of Mexico in the United States foreign policy world view. What we seemed to be seeing was the decline of the special relationship and

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[23] *Evidence*, Meeting No. 56, February 7, 2002.

[24] *Evidence*, Meeting No. 63, February 28, 2002.

[25] See *Evidence*, Meeting No. 83, May 10, 2002; also Orchard, *The Fight for Canada: Four Centuries of Resistance to America*, 2nd edition, Robert Davies, 1999.

[26] Clarkson, "The Integration Assumption: Putting the Drive for Continental Visions in Context", Submission, Meeting No. 77, May 7, 2002; see also Clarkson, "North American Relations: What's in it for us?" *The Globe and Mail*, May 6, 2002, p. A15.

> the creation of the uneasy North American partnership. I say uneasy because of the apparent jealousy of the two subordinate partners, Canada and Mexico, as rivals for U.S. attention and affections. As we know, both Canada and Mexico entered into free trade agreements with the United States in order to gain special access to the U.S. economy, and they weren't eager to share those benefits with each other.[27]

While Professor Macdonald saw NAFTA as finally putting Canada-Mexico relations into the mix, she argued that

> earlier stages in the process of North American integration were characterized by inadequate representation of a broad range of social sectors, resulting in counterproductive hostility and confrontation between government, business, and civil society. So I believe any further step towards integration needs to be accompanied by a constructive process of dialogue, such as, indeed, this committee has begun, and may even require re-examination of some aspects of the NAFTA, like Chapter 11, a real sore point with most elements of civil society. As well, Canada should support the development of ties between members of diverse sectors of civil society, like women and indigenous peoples, in the three countries.[28]

Among proponents of stronger North American ties, some envisaged this primarily if not exclusively in Canadian-American terms. Reginald Stuart, for example, cited the sharing of a legal heritage and "broadly common culture" that has developed into "alternate versions of a North American culture." He also saw the Canadian-American relationship in terms of "dispersed relations", characterized "not only as state-to-state relations but as provinces to states, … as regional linkages, and also as the linkages of peoples and cultures and values and societies."[29]

With regard to the negotiation of North American agreements, Michael Hart argued that Canada should direct its major attention and efforts to the U.S. relationship and leave potential trilateral approaches to later. As he put it:

> I think the Mexican factor should not deter us from moving ahead. The United States has a different attitude toward Mexico. The Mexican response to the issues raised by September 11 has been different. Despite the fact that we have a common North American agreement, many issues between Canada and the United States are not shared by Mexico, and many issues between Mexico and the United States are not shared by Canada. At this particular time, it is critical that the two governments that share North America with the United States move ahead in parallel efforts, rather than in joint efforts. At some point in the future, they should

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[27] *Evidence*, Meeting No. 88, June 6, 2002.

[28] Ibid.

[29] *Evidence*, Meeting No. 59, February 26, 2002.

> determine the extent to which they have shared interests that can be brought into a single effort.[30]

The Committee will revisit these issues in Chapter 5, but we note that this suggestion of a sort of double bilateralism, or "North America at two speeds" as Christopher Sands described it in testimony last fall,[31] conforms to our sense of how official Washington still operates in separate dealings with North American partners. There is an awareness in some quarters of issues that are becoming more North American in scope, and of cooperative arrangements or institutions that may be needed to manage these issues. But judging from our encounters in the U.S. capital, there is as yet little active American policy consideration, much less practice, being put into anything like the ambitious trilateral North American directions urged by former senior Carter administration official Robert Pastor, among others.

This official American disinterest was in marked contrast to the messages conveyed to the Committee repeatedly by Mexican interlocutors at all levels, including members of the Mexican Congress and its Senate North American Committee. Mexicans acknowledged that North American lacks a "constituency"; perhaps also a clear shape and common purpose. Professor Guadalupe González of the Centro de Investigación y Docencia Económicas observed that for this "region in the making", marked by diverse social views and dual anxieties over vulnerabilities to U.S. power, "there is no single understanding of the future of North America … [or of] which type or model of integration is feasible and desirable."[32] However, Mexican witnesses were unanimous in urging a stronger relationship with Canada and in linking that to a more fruitful trilateral approach.

A farsighted, inclusive view of North America was also urged at various points during the Committee's Canadian hearings. Dr. Brian Stevenson of the University of Alberta concluded that: "Although we benefit tremendously from our good bilateral relationship with the U.S., we are also terribly vulnerable because of it. Our next step should be to transform the three bilateral relationships into a North American community. This is in our national interest."[33] Stacey Wilson-Forsberg and Donald MacKay of the Canadian Foundation for the Americas (FOCAL) pointed out that "while there are a number of individuals and institutions well experienced in many of the issues at the centre of the discussion on North America, the evident weakness within Canada remains lack of knowledge about Mexico. It is perhaps also because of this knowledge gap that it has been so difficult to factor Mexico into our discussions about North America. For this reason, a two-speed model of integration is gaining strength in Canada, and we believe this model could be particularly worrisome."[34]

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[30] *Evidence*, Meeting No. 55, February 5, 2002.

[31] Christopher Sands, "The Canadian Response to the United States after September 11, 2001", *Statement*, Meeting No. 45, November 27, 2001.

[32] First expert panel held at the Canadian embassy, Mexico City, March 13, 2002.

[33] *Evidence*, Meeting No. 82, May 9, 2002.

Professor Stephen Blank of New York's Pace University also recalled to the Committee that a great deal of "bottom-up" economic integration was already taking place prior to the free trade agreements, which he saw as a response to "changes in the economic environment that had already taken place." The more NAFTA succeeds and economic linkages intensify within what is a de facto "North American economic community," the greater the contradiction with a "very minimal governance system" at the North American level. As he put the challenge: "The great North American project that lies ahead, in which Canada's interests can and should be maximized, is to build a constituency that supports the emergence of a North American community." He saw this not as some homogenizing grand design, but as a multi-level, participatory, and interest-based public and private endeavour —

> I don't think we see a North American identity in the future. ... But I do think what we should be aiming at is a vision that recognizes the interests we share as North Americans in a freer, continent-wide economic system, in an effective and cost-efficient infrastructure that supports this system, and on a commitment to bring all citizens into the system to ensure that everyone benefits from participation in this North American community. We share interests. I don't think identity is the issue.[35]

Guy Stanley of the University of Ottawa agreed that we are being challenged "to develop a made-in-Canada North American strategy, *un projet de société nord-américain, plus précisement.* Canada is uniquely suited to do this, but we haven't done it, and the initiative has been taken by Mexico." He added: "Some people may be a little hesitant to go forward in this direction, fearing standardization — the adoption of norms that are uncomfortable to ourselves. But on the contrary, having a clear North American management framework would provide protection for diversity, and allow diversity to flourish more strongly than at present."[36]

Better Positioning Canada to Respond

The critics of North American integration are unlikely to be persuaded of the merits of considering any deeper or broader integration options. But even most of them would surely agree that Canadian policymakers should have access to the best possible knowledge base so that they can be in the strongest position to assess major trends and respond to multiple developments within North America that affect Canadian interests and values. A principal message of this chapter is that complacency on that score will weaken Canada's capacity to choose, *whatever* the objectives are that Canadians want their governments to pursue in a rapidly evolving North American context. Although that context may be dominated by a powerful United States, it is a very heterogeneous one, and it also includes a dynamic, fast-changing Mexico with already more than three times the population of Canada.

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[34] *Evidence*, Meeting No. 88, June 6, 2002. See also Stacey Wilson-Forsberg, *Overcoming Obstacles on the Road to North American Integration: A View from Canada*, FOCAL Policy Paper, November 2001, and Wilson-Forsberg, *Canada and Mexico: Searching for Common Ground on the North American Continent*, FOCAL Policy Paper, March 2002.

[35] *Evidence*, Meeting No. 90, June 13, 2002.

[36] *Evidence*, Meeting No. 90, June 13, 2002.

Work is underway to improve the Canadian knowledge base; for example, through the federal-government-supported Policy Research Initiative (PRI) and its North American Linkages (NAL) Project. Much of this has focused on the implications for the Canadian public policy environment of an increasingly integrated North American economic space.[37] And as Janine Ferretti, then executive director of NAFTA's North American Commission for Environmental Cooperation told the Committee in Montreal: "I think all three countries need information to better understand what North America is, what the North American priorities are, what the trends are, what the challenges are."[38]

In that regard, Stephen Blank also made the following telling comment:

> … as an educator, let me underline that many leaders in our governments, media, and academic communities know little about the developments in North America, despite the growing importance of these developments in our lives. Almost no resources are directed toward public information and education. There are almost no university institutes on North America, no programs of visiting faculty or student exchanges, no funds for collaborative research. There is no foundation or centre devoted to North American research. The gap between what is happening in our North American economy and what we know about it is enormous, and I see this as one of the most profound weaknesses in our North American system.[39]

Of course, North America's future is about more than just economic integration, NAFTA impacts, or next steps. Fundamentally, it should be about what is best for the more than 400 million citizens of the three sovereign countries sharing that nearly $12 trillion economic space. To ascertain that means engaging a variety of stakeholders and the general publics in the three countries. It means investigating the diverse situations in which they live and the interactions that are most important to them. It means facilitating knowledge transfers, communications, and networking at many levels.

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[37] See the testimony of Industry Canada Deputy Minister Peter Harder, who chairs the NAL project, *Evidence*, Meeting No. 90, June 13, 2002. Broader dimensions of PRI-supported work on the ramifications for Canada of North American linkages have been explored in various recent issues of the monthly PRI journal *Horizons* and in *Isuma: Canadian Journal of Policy Research*, as well as being brought together through the annual PRI-sponsored national policy research conferences.

[38] *Evidence*, Meeting No. 62, February 27, 2002.

[39] *Evidence*, Meeting No. 90, June 13, 2002. Stacey Wilson-Forsberg of FOCAL also points out in a recent policy paper that: "putting geopolitical and economic interests aside, there is as yet no domestic constituency in any of the three countries pushing strongly for North American integration. … The societies of North America need to be educated to ensure that any future discussion on the subject is informed and relevant." *North American Integration: Back to Basics*, Ottawa, August 2002, p. 7. Available at: www.focal.ca.

One of Laura Macdonald's recommendations was to "encourage the government to provide more support for research and education in the growing area of North American studies."[40] The Committee agrees. All levels of government in Canada should cooperate according to their respective areas of responsibility in order to increase such support. But we also see the task as being far larger if it is to prepare Canadians, and better position Canada, to respond realistically and adequately to the challenging policy environment of a changing North America.

In that regard, perhaps existing policy development instruments such as the PRI's North American Linkages project can be expanded and used more broadly to disseminate research findings for public discussion and debate. Indeed, we see merit in Canada exploring the creation of a more visible knowledge-oriented entity, perhaps a centre of excellence, that would be devoted to building our capacity to analyze all aspects and societal impacts of North American integration. Such a Canadian initiative could also invite the cooperation of U.S. and Mexican partners and could eventually evolve into a joint North American endeavour. With respect to the foreign policy dimensions of Canada's North American objectives in particular, perhaps the Canadian Centre for Foreign Policy Development could play a more active role, building links among foreign service professionals, parliamentarians, academics, other researchers, interest groups, and civil society organizations. Information technologies might also be used to improve interactive connections with the public at large.

The answers may not be obvious. That is why it is even more important and timely for Canadians to be asking ourselves questions about the kind of North America we want.

Recommendation 6

In order to better position Canada and Canadians to meet the challenges of a rapidly changing North American policy environment that includes Mexico, the Government should:

- **foster increased understanding through knowledge generation and dissemination of North American research results to the public;**
- **work to increase support for North American studies and education in cooperation with provincial and territorial governments, expand public information programs, and enhance its own policy research initiatives;**
- **investigate the idea of creating a knowledge-oriented entity or centre of excellence devoted to analyzing all aspects and impacts of North American integration, and invite the cooperation of U.S. and Mexican partners in such an endeavour;**

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[40] *Evidence*, Meeting No. 88, June 6, 2002.

- **explore other means of promoting networking and dialogue on North American issues, seeking to involve the broadest possible social participation.**

Recommendation 7

The Department of Foreign Affairs and International Trade in particular should look at ways to deepen knowledge and understanding of Canada's North American relationships, particularly with the United States and including those with Mexico. DFAIT should also promote public engagement in better defining and promoting Canadian foreign policy objectives in North America. For example, the Canadian Centre for Foreign Policy Development could be tasked with building links in this regard among foreign service professionals, parliamentarians, academics, other researchers, interest groups, and civil society organizations. Information technologies could also be used to improve interactive connections with the public at large.

B. NORTH AMERICA BY THE NUMBERS: OVERVIEW OF AN EMERGING ECONOMIC SPACE

Economic Trends in the 1990s: Increased Integration and Outward Orientation

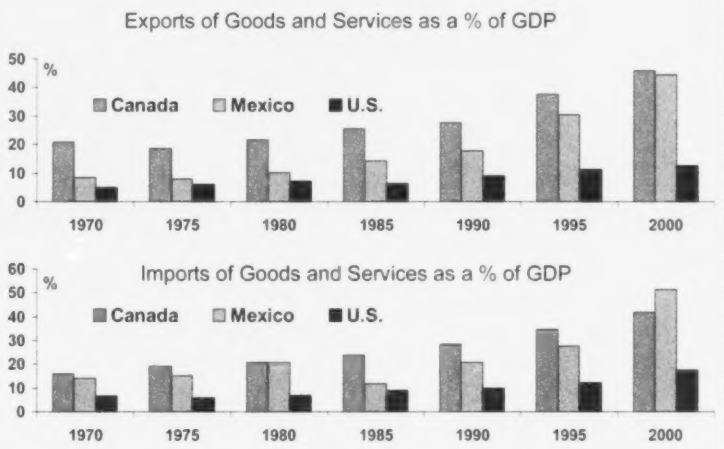
Nearly fifteen years have passed since the Canada-U.S. Free Trade Agreement (FTA) set into motion an unprecedented period of economic integration in North America. As tariff and non-tariff barriers to trade have fallen, trade and investment among Canada, the United States, and Mexico have soared. North America has effectively become a single domestic market. Faced with increased competition, firms in all three countries are adapting to the new economic environment by specializing production and exploiting their comparative advantages and regional strengths. The remainder of this chapter sets the stage for Chapter 4, "Key Issues in Managing and Advancing the North American Economic Relationship", by providing an overview of the increased economic integration and interdependence that took place in North America over the 1990s.

The late 1980s and 1990s were characterized by significant reductions in barriers to trade and investment. In 1994, the conclusion of the Uruguay Round of negotiations at the World Trade Organization (WTO) lowered tariffs and non-tariff barriers at the global level. Building on the Canada-U.S. free trade experience since 1989, the North American Free Trade Agreement (NAFTA) was introduced that same year, significantly liberalizing the flow of goods and services in North America. In addition, through the 1990s, Canada and Mexico — particularly the latter — pursued numerous bilateral trade agreements around the world.

For Mexico, trade liberalization has been a key part of a broad series of economic and political reforms initiated in the late 1980s. Mexico has aggressively sought out trade liberalization agreements as part of a strategy to position itself as a distribution hub to the pan-American market. In addition to the NAFTA, in the past ten years Mexico has signed trade agreements with Chile, Colombia, Venezuela, Israel, Norway, Switzerland, the European Union, and most countries in Central America.

As a result of reduced barriers to trade, both globally and in the North American context, the importance of exports and imports to economic growth has risen tremendously over the 1990s. In Canada, the most export-oriented of the North American economies, exports of goods and services accounted for 46% of national GDP in 2000, up from 28% ten years earlier and 21% in 1970. The pattern of import growth has been similar, although in recent years Canada's growing trade surplus has meant that imports are somewhat less important than exports to the national economy.

Trade is Growing in Importance Across North America



Source: Parliamentary Research Branch calculations using OECD data

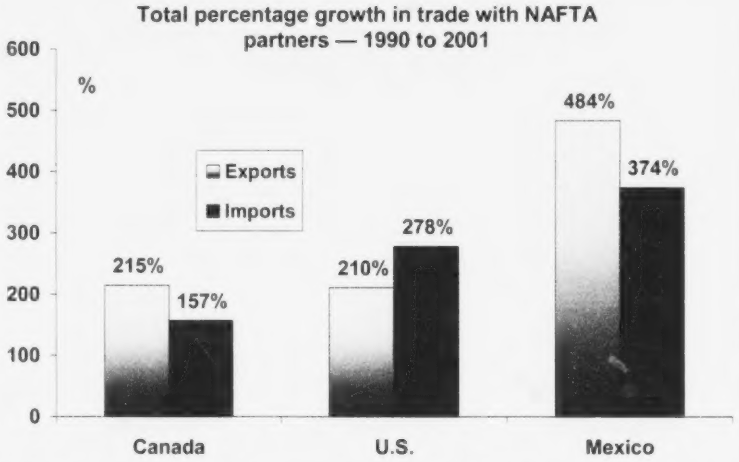
The most significant growth in trade orientation in recent years has been in Mexico. Through most of the 1970s, less than 10% of Mexico's GDP came from exports. This proportion rose steadily through the late 1970s and 1980s, but exploded after 1994, reaching 45% by 2000. In the case of imports, the growth has been even more dramatic. Domestic economic reforms in the late 1980s, which, as mentioned above, included emphasis on increased trade liberalization, led to a surge in import growth into Mexico. In 1987, imports were equivalent to 12% of national GDP in Mexico, but had risen to 52% by the year 2000.

By comparison, the United States remains a relatively closed economy. In 2000, exports of goods and services were equivalent to just under 13% of total economic production. While this is low relative to Canada and Mexico, the contribution of exports to GDP is close to double the 7% level immediately preceding the signing of the Canada-U.S. free trade agreement. Growth of imports has been somewhat more rapid, particularly in the recent past. Imports of goods and services reached 17% of GDP in 2000.

1. Trade Across North America

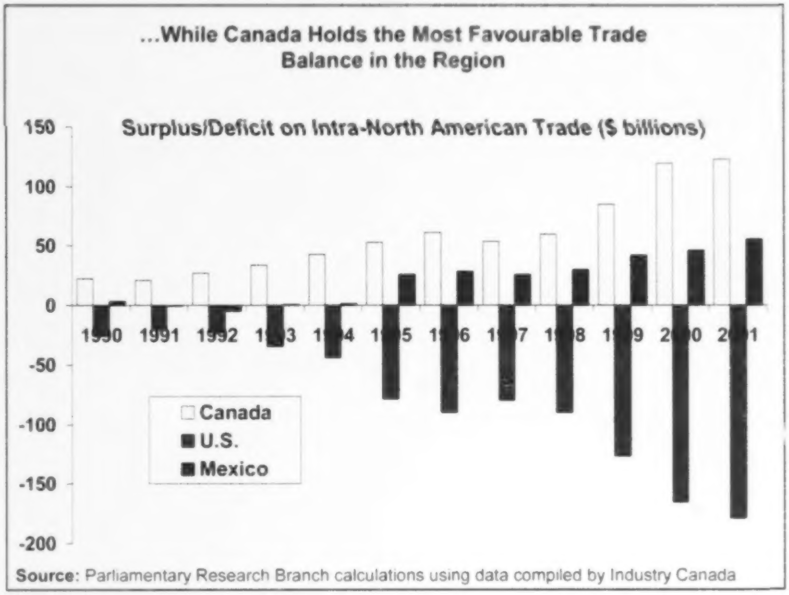
The tremendous growth in trade within North America is in large part responsible for this increase in the importance of trade to the economies of Canada, the United States and Mexico. Merchandise trade among the three NAFTA signatories was valued at about $945 billion in 2001, an increase of nearly 350% over the value of their combined exports into the North American market in 1990.

Mexico Leads Growth in Trade Within North America...



Source: Parliamentary Research Branch calculations using data compiled by Industry Canada

Of the three NAFTA countries, Mexico has clearly made the greatest gains in trade over the 1990s. Bilateral trade with Canada and the United States has grown by a total of 431% since 1990, far exceeding the rate of growth in either Canada or the United States. Mexico's total trade with its NAFTA partners reached $376 billion in 2001, led by a strong increase in exports. Mexico's exports to its NAFTA partners in 2001 were 484% higher than 11 years earlier. By contrast, imports from Canada and the United States grew by 374% over that period.



...While Canada Holds the Most Favourable Trade Balance in the Region

Surplus/Deficit on Intra-North American Trade ($ billions)

Source: Parliamentary Research Branch calculations using data compiled by Industry Canada

As the largest economy in North America, the United States is also the largest trader within NAFTA. Bilateral trade flows with Canada and Mexico reached $930 billion in 2001, an increase of 247% over 1990 levels. This rate of trade growth falls short of the pace set by Mexico but is greater than the rate of two-way trade growth in Canada.

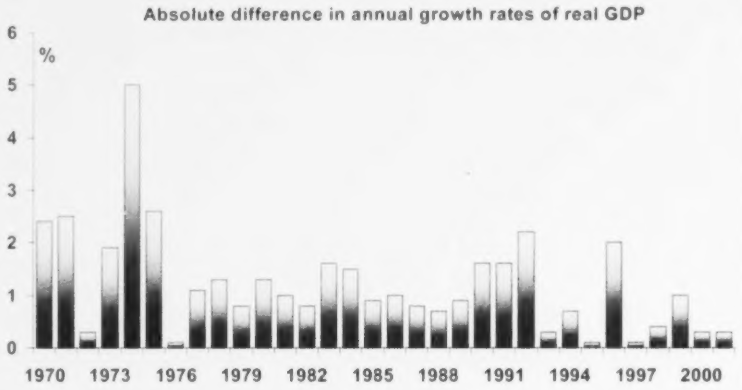
Unlike the Mexican or Canadian increases, however, the increase in U.S. trade flows was led by higher imports. Imports from Canada and Mexico grew by 278% from 1990 to 2001, while exports to those countries were 210% higher. As a result of the strong import growth, the United States carries a large and growing trade deficit with its NAFTA partners.

Although its two-way trade with its NAFTA partners has increased considerably since 1990, Canada has seen the slowest growth in bilateral trade of the three signatory countries. Bilateral flows to and from Canada were 189% higher in 2001 compared with 11 years earlier — representing a 215% increase in exports combined with a 157% jump in imports. Because of the relatively slow growth in imports into Canada, specifically from the United States, as well as the dominant position held by the United States in Canada's world trade, Canada has the largest trade surplus of the three countries.

2. Growth in Interdependence

The increase in trade orientation of the NAFTA economies, combined with the tremendous growth in trade among the three nations, has resulted in the economic fortunes of Canada, the United States and Mexico becoming increasingly interconnected in recent years. Given the strength of the U.S. economy, in practical terms this has meant that economic growth in Canada and Mexico is increasingly tied to the performance of the United States.

Differences in GDP Growth Rates in Canada and the U.S. are Decreasing over Time...



Source: Parliamentary Research Branch calculations using IMF data

This is more true of Canada than of Mexico. Canada is the most open economy in North America and one of the most trade-oriented industrial economies in the world. With the United States as Canada's long-time leading export destination, growth in the Canadian economy has typically moved in close step with growth in the United States for decades. This has been particularly evident through the 1990s to the present. Both countries went into recession early in the 1990s, saw strong economic growth from 1997 onwards, and experienced a sharp drop in annual growth in 2001. Indeed, looking further back the variation between the performance of the Canadian and U.S. economies has diminished considerably over time. In the 1970s, the difference between the two countries in annual real GDP growth was 1.8%. In the 1980s, it fell to 1.1% and further to 1.0% in the 1990s. In the two most recent years, the difference has been only 0.3%.[41]

In Mexico, the economy has not been as dependent on trade as in Canada in the past, but as shown below, this is changing dramatically. As the Mexican economy becomes increasingly trade-focused, the influence of the United States — its largest trading partner — is growing as well. In the 1970s and 1980s, GDP growth in Mexico varied considerably from growth rates in the United States, at least in part because of volatile growth patterns in Mexico over that period. The average difference in growth rates between the United States and Mexico in the 1970s was 3.9%, and in the 1980s it was higher still, at 4.4%. In the 1990s, however, as trade levels increased, the Mexican economy began to move more in step with the United States. The average difference in growth rates was only 2.4%, and would have been significantly lower still had it not been for the Mexican peso crisis in 1995.

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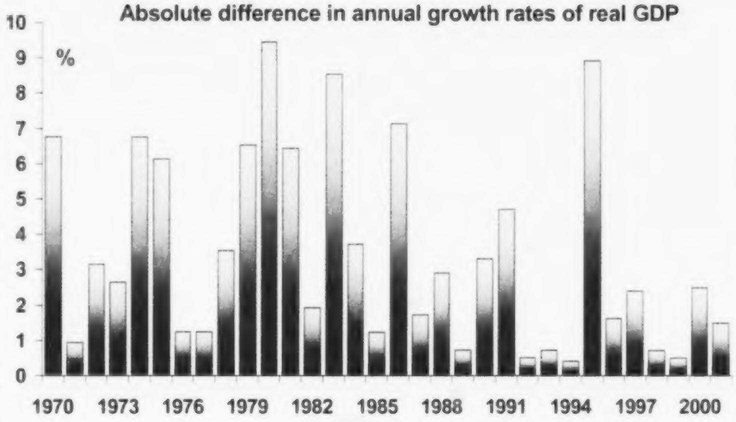
[41] This information refers to the absolute difference in annual growth rates of real GDP between the two countries.

...As are Differences Between the United States and Mexico



Source: Parliamentary Research Branch calculations using IMF data

3. Trading and Investment Relationships within North America

The dramatic expansion of trade and investment within North America, particularly since the NAFTA was implemented in 1994, is evident in all three of the region's bilateral relationships. While the Canada-U.S. relationship is by far the largest and most well-developed, trade and investment between the United States and Mexico, as well as between Canada and Mexico, have grown considerably as well.

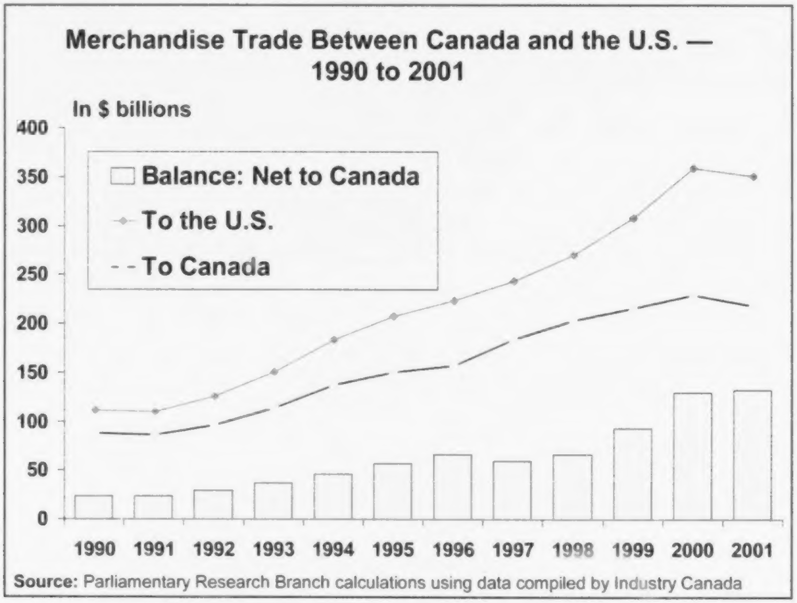
Indeed, examining the three bilateral trading relationships more closely reveals the extent to which the North American economies are linked. With a few exceptions, all three countries export similar categories of goods into the North American market. This suggests that not only do Canada, the United States and Mexico support closely interconnected industries, but also a growing degree of product and process specialization.

(a) Canada and the United States

The trading relationship between Canada and the United States is the most significant in North America. Bilateral trade totalled $569 billion in 2001, an increase of 185% over 1990 levels. Trade between Canada and the United States accounted for 60% of total intra-regional trade in 2001. Northbound exports — from the United States to Canada — were valued at $218 billion, while southbound exports — from Canada to the United States — reached $351 billion. Canada held a trade surplus of $132 billion with the United States in 2001.

Canada and the United States are each other's largest trading partners. However, while the United States dominates Canada's export portfolio, Canada is only moderately more important to U. S. exporters than are the United States' other major trading partners. A full 87% of Canada's exports head to the United States annually. By comparison, 22% of U.S. exports are sold in Canada.

Canada is less dependent on the United States as a source of imports than as a destination for exports. The United States is declining in importance as a source of imports into Canada despite the fact that northbound trade has increased by 150% since 1990. Rapid growth in imports from a number of other countries — China and Mexico in particular — has led to the decline in the share of Canada's imports coming from the United States. While in 1998 a record 68% of Canada's imports came from the United States, three years later that figure had fallen to 64% — its lowest level since before 1990.



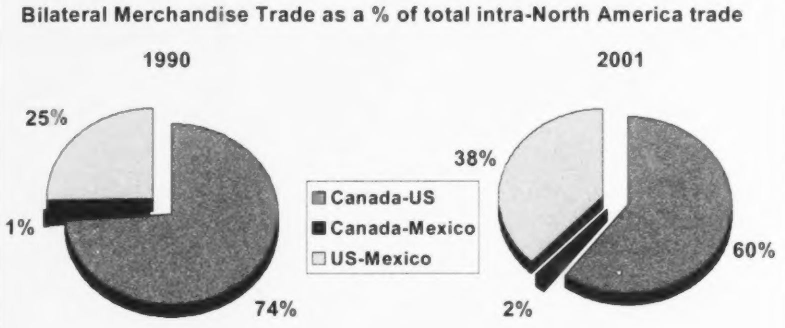
Merchandise Trade Between Canada and the U.S. — 1990 to 2001

Source: Parliamentary Research Branch calculations using data compiled by Industry Canada

Similarly, Canada is more important as an export destination than as a source of imports for the United States as well. Southbound trade has grown by 215% since 1990, but the share of U.S. imports originating in Canada has nevertheless fallen slightly in recent years, reaching 19% in 2001. As in the Canadian case, this decrease is largely due to the tremendous increase in U.S. imports from Mexico and China — particularly in the late 1990s.

Indeed, despite the strong growth in bilateral trade between Canada and the United States, that trading relationship is declining in importance in the North American context. The growth in Canada-U.S. trade since 1990 has been less than half the pace of growth of either U.S.-Mexico trade or Canada-Mexico trade. As a result, while Canada-U.S. bilateral trade accounted for 60% of trade within North America in 2001, this share is down considerably from 1990 levels when Canada and the U.S. accounted for nearly three-quarters of intra-regional trade.

Canada-U.S.: Largest Trading Relationship North America, but Declining in Importance



Source: Parliamentary Research Branch calculations using data compiled by Industry Canada

Trade by Product

The exchange of goods between Canada and the United States spans a wide range of product types, ranging from raw materials and resource-based goods to heavy manufacturing and high-tech products. However, in both northbound and southbound trade, the majority of exports are concentrated in a few key product groupings.

In the case of southbound trade, four broad categories of merchandise account for close to two-thirds of all Canadian exports to the United States. Motor vehicles and parts constitute Canada's leading category of exports, accounting for 23% of the total in 2001. Crude oil, petroleum, natural gas, coal and other fossil fuels comprise the second-largest category of southbound trade. These non-renewable mineral products make up about 16% of shipments from Canada.

Top Canadian Exports to the United States

	1990		2001	
	$millions	% of total	$millions	% of total
Motor vehicles and parts	31,218	28.0	80,120	22.8
Fossil fuels and related	12,828	11.5	54,855	15.6
Machinery and equipment	9,503	8.5	29,075	8.3
Electrical/electronic mach. & equip.	5,705	5.1	18,966	5.4
Wood and wood products	4,370	3.9	16,340	4.7
Paper products	7,619	6.8	15,952	4.5
Plastics and articles thereof	1,865	1.7	10,968	3.1
Aircraft and spacecraft	2,114	1.9	9,705	2.8
Furniture, furnishings, prefab buildings	1,548	1.4	7,951	2.3
Aluminum and articles thereof	2,485	2.2	7,196	2.1
Sub-total	**79,256**	**71.0**	**251,127**	**71.6**
Others	32,301	29.0	99,607	28.4
Total	**111,557**	**100**	**350,734**	**100**

Source: Parliamentary Research Branch using data compiled by Industry Canada

Canadian machinery and equipment exports, including electrical and electronic goods, are also significant, accounting for slightly less than 14% of total exports to the United States. Finally, forest products, including pulp, paper, lumber and articles of wood comprise just over 10% of southbound trade.

Top US Exports to Canada

	1990		2001	
	$millions	% of total	$millions	% of total
Machinery and equipment	18,782	19.4	49,854	19.7
Motor vehicles and parts	20,917	21.6	46,760	18.4
Electrical/electronic mach. & equip.	11,338	11.7	30,989	12.2
Plastics and articles thereof	3,046	3.1	10,589	4.2
Scientific/technical instruments	3,180	3.3	9,398	3.7
Paper products	1,590	1.6	5,901	2.3
Fossil fuels and related	2,533	2.6	5,842	2.3
Articles of iron or steel	1,822	1.9	5,669	2.2
Rubber and articles thereof	1,367	1.4	4,270	1.7
Furniture, furnishings, prefab buildings	1,098	1.1	4,213	1.7
Sub-total	**65,671**	**67.8**	**173,485**	**68.4**
Others	31,134	32.2	80,026	31.6
Total	**96,805**	**100**	**253,511**	**100**

Source: Parliamentary Research Branch using data compiled by Industry Canada
Note: All figures in Canadian dollars

Two product categories account for just over half of all northbound trade between Canada and the United States. U.S. exports to Canada are led by sales of machinery and equipment, including electrical and electronic goods. These products accounted for just under one third of total northbound trade in 2001. Motor vehicles and vehicle parts are the second-largest category of U.S. exports to Canada, comprising about 18% of U.S. shipments to Canada in 2001. Outside of the machinery and vehicles categories, northbound trade between Canada and the United States is relatively diffused over a wide range of product types, led by chemicals and products of rubber, plastic and base metals.

Trade by Province

Looking in more detail at the sources of Canada's trade, Ontario is by far the largest provincial exporter to the United States. In 2001, Ontario sold $188 billion in goods to buyers in the United States, accounting for about 54% of Canada's total exports to that country. Trade between Ontario and the United States is fuelled by the growing economic integration between Ontario and its neighbouring states. One-third of Ontario's exports worldwide go to Michigan, led by the heavily integrated motor vehicles sector. Motor vehicles and parts accounted for nearly 40% of Ontario's exports to the United States in 2001.

Quebec and Alberta are Canada's next largest exporters to the United States. Exports from those two provinces were valued at $60 billion and $51 billion, respectively. Led by aerospace and forest products, Quebec, which trades heavily with New York and the U.S. northeast, is the source of 17% of Canada's exports to the United States. For its part, strong sales of oil and natural gas contributed to Alberta's 15% share. However, unlike most other provinces, Alberta's southbound exports are not concentrated in neighbouring states. Instead, many of Alberta's largest export destinations — Washington, Michigan, Illinois, Minnesota and Ohio — are located along major North American pipeline routes.

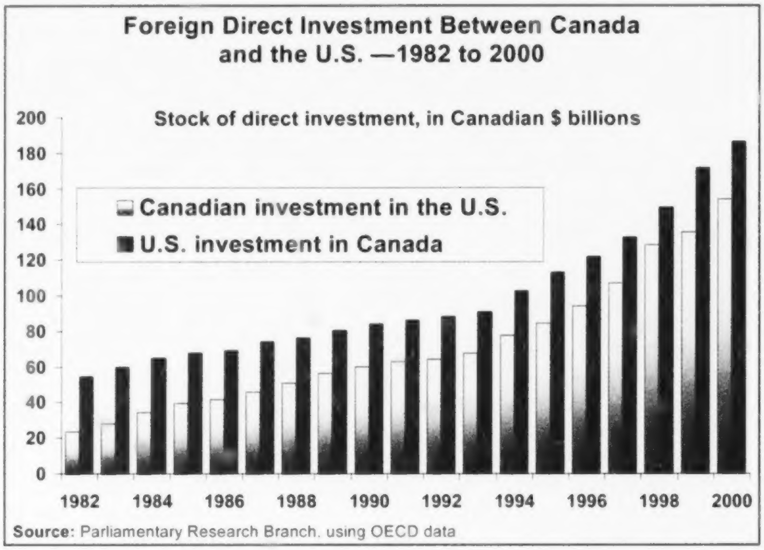
Although Ontario is the province most integrated with the United States and dominates Canada's total trade with that country, it has not been among the leaders in export growth to the United States. While Ontario has averaged an annual export growth rate of 10.5% from 1990 to 2001, the fastest growth has been in Alberta and the Maritime provinces. In particular, exports from Prince Edward Island to the United States have risen by 17.4% annually since 1990.

However, Ontario's international exports are more dependent on the U.S. market than those of any other province in Canada. In 2001, over 93% of Ontario's exports worldwide went to the United States, by far the highest proportion in the country. New Brunswick, Alberta, and Prince Edward Island were next highest: each shipped about 89% of their global exports to the United States in 2001. At the other end of the spectrum, Saskatchewan and Newfoundland and Labrador — the two provinces furthest away from major U.S. markets — send relatively little of their total exports to the United States: 59% and 66% respectively.

Investment

In addition to the growth in trade between Canada and the United States since the Canada-U.S. free trade agreement was signed in 1989, there has been a similar strong increase in the levels of foreign direct investment (FDI) between the two countries. This was particularly the case immediately following the recession in the early 1990s. Canadian investment in the United States rose from a year-end value of $60 billion in 1990 to $154 billion by 2000 — an increase of 157%. U.S. investment in Canada was slightly higher in 2000, at $186 billion, but has not grown as quickly as southbound investment. U.S. FDI into Canada was 121% higher in 2000 than ten years earlier.

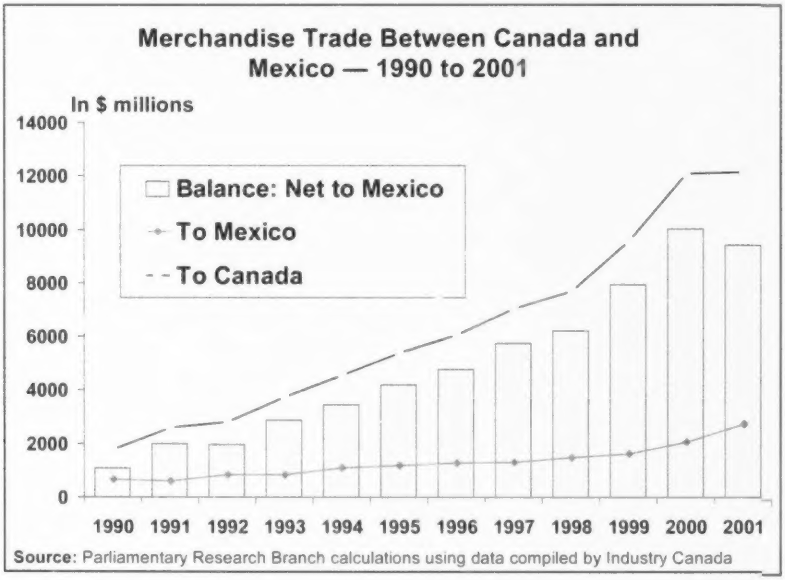
The United States is considerably more important as a destination for Canadian FDI than vice versa. In 2000, U.S. investment opportunities accounted for just over half of Canada's total FDI worldwide. By contrast, Canada was the destination of about 10% of U.S. FDI that year. In both cases, however, the growth in investment over the 1990s has not kept pace with the increase in either country's total foreign investment spending worldwide. As a result, Canada is declining in importance as a destination for U.S. foreign investment. The same is also true of Canadian investment in the United States. By 2000, Canada's FDI in the United States has fallen from 61% of its worldwide total ten years earlier, while U.S. investment in Canada in 1990 had accounted for 16% of the U.S. world total that year.



Source: Parliamentary Research Branch, using OECD data

(b) Canada and Mexico

Of the three bilateral relationships within North America, that of Canada and Mexico is by far the smallest. Canada and Mexico exchanged $14.8 billion in merchandise exports in 2001, representing only 1.6% of total intra-NAFTA trade.



Source: Parliamentary Research Branch calculations using data compiled by Industry Canada

While the value of trade between Canada and Mexico is not large, it has seen tremendous growth in recent years. In fact, Canada-Mexico is the fastest-growing bilateral trade relationship within the NAFTA region. Bilateral trade between the two countries has risen by 517% since 1990, led by a surge in Mexican exports to Canada. Sales of Mexican goods in Canada have increased sevenfold in the past eleven years, reaching $12.1 billion in 2001.

Canadian exports to Mexico have also risen considerably but have not kept pace with trade flowing north. From a value of $656 million in 1990, Canadian exports rose to $2.7 billion in 2001. Although this 313% increase is considerable, the balance of trade is tilted decidedly in Mexico's favour.

The tremendous increase in both northbound and southbound trade between Canada and Mexico has meant that each is rising in importance as a trading partner with the other. Although only 0.7% of Canada's exports in 2001 went to Mexico, this is slightly higher than the 0.4% share in 1990. In fact, Mexico is the only major export destination for Canada outside of the United States which has seen an increase in market share since 1990. As a result Mexico is now Canada's sixth-largest export destination. Similarly, Mexico is growing in importance as a source of imports into Canada. About 3.5% of Canada's imports in 2001 came from Mexico — up from 1.3% in 1990 — making that country Canada's fourth-largest source of imports.

Trade with Canada is significant from the Mexican perspective as well. Trade data from Mexico suggests that Canada is the second most important destination for Mexican exports, accounting for 2.0% of total exports worldwide in 2000. At the same time, 2.3% of Mexico's total imports came from Canada in 2000, making that country Mexico's fourth-largest source of imported goods.

It should be noted that there are complicating factors when examining trade between Canada and Mexico. Much of the trade between the two countries passes through the United States, leading to uncertainty about the origin and destination of merchandise trade. In particular, it is likely that Canadian exports to Mexico are significantly understated.[42] Data reconciliation efforts are underway between Canada and Mexico.

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[42] This is evident when considering trade data from Mexico. As published by the International Monetary Fund (IMF) in its annual *Direction of Trade Statistics Yearbook*, Canadian data suggests that Canada exported U.S. $1.4 billion to Mexico in 2000, while Mexican import data suggests receipt of U.S. $4.0 billion in goods from Canada. The difference is even more considerable for northbound trade. While Canada reported imports of U.S. $7.8 billion from Mexico in 2000, Mexican data accounts for exports of only U.S. $3.4 billion to Canada. As a result, each country claims a trade deficit with the other.

Trade by Product

Canadian exports to Mexico are concentrated in a few major product groupings, but unlike Canada's exports to the United States, shipments to Mexico represent a mix of manufactured goods and agricultural products. The largest grouping of export products, motor vehicles and parts, accounted for just over one-fifth of the total in 2001, followed closely by machinery and equipment, including electrical and electronic products.

Top Canadian Exports to Mexico

	1990		2001	
	$millions	% of total	$millions	% of total
Motor vehicles and parts	94	14.4	568	20.9
Machinery and equipment	74	11.2	406	15.0
Meat and edible offal	15	2.3	272	10.0
Cereals	9	1.4	256	9.5
Oil seeds, fodder, medicinal plants, etc.	1	0.1	253	9.3
Electrical/electronic mach. & equip.	63	9.6	109	4.0
Edible animal prods (dairy, eggs, etc.)	73	11.1	88	3.2
Aircraft and spacecraft	42	6.4	67	2.5
Rail transportation	0	0.0	65	2.4
Paper products	37	5.6	62	2.3
Sub-total	**407**	**62.1**	**2,146**	**79.2**
Others	249	37.9	564	20.8
Total	**656**	**100**	**2,711**	**100**

Source: Parliamentary Research Branch using data compiled by Industry Canada
Note: All figures in Canadian dollars

However, some of the most rapid market access gains for Canadian exporters have been in the agricultural sector. Exports of cereals, oilseeds, and other related plant products have risen from $10 million in 1990 to over $500 million in 2001 and now account for 19% of total exports to Mexico. Similarly, animal products such as meat, dairy, and eggs have grown in importance and make up over 13% of Canadian exports to Mexico.

Top Mexican Exports to Canada

	1990		2001	
	$millions	% of total	$millions	% of total
Motor vehicles and parts	414	23.6	3,644	30.1
Electrical/electronic mach. & equip.	322	18.4	3,168	26.1
Machinery and equipment	557	31.8	2,142	17.7
Furniture, furnishings, prefab buildings	10	0.6	538	4.4
Fossil fuels and related	57	3.2	431	3.6
Scientific/technical instruments	10	0.6	249	2.1
Woven clothing and apparel	8	0.5	180	1.5
Vegetables, roots/tubers	17	1.0	157	1.3
Fruits and nuts	79	4.5	150	1.2
Beverages, spirits and vinegar	47	2.7	121	1.0
Sub-total	**1,519**	**86.9**	**10,780**	**88.9**
Others	229	13.1	1,340	11.1
Total	**1,749**	**100**	**12,120**	**100**

Source: Parliamentary Research Branch using data compiled by Industry Canada
Note: All figures in Canadian dollars

While agricultural products have become significant export commodities to Mexico, many other Canadian products have seen similar rapid growth. Indeed, of Canada's top 25 export product groupings, only seven have not at least doubled from 1990 to 2001, and only two have decreased over that period.

Mexico's exports to Canada are heavily concentrated in motor vehicles and machinery and equipment. In particular, Mexico is a large assembler of electronics, exports of which to Canada have increased nearly tenfold since 1990. Together with motor vehicles and parts, electrical and electronic machinery and equipment account for over half of all Mexican exports to Canada. When other machinery and equipment is included, the total rises to just under three-quarters of the total.

Although Mexico's exports to Canada are dominated by a few key sectors, the strong growth in Mexican exports to Canada has not been restricted to those sectors of the economy. Nearly all major product groupings, from clothing and textiles to scientific instruments, have seen exceptional gains in penetrating the Canadian market.

Trade by Province

In a manner similar to that manifested in Canada's trade with the United States, Ontario dominates Canada's exports to Mexico. With motor vehicles and parts leading, Ontario shipped goods valued at just under $1.4 billion to Mexico in 2001, making up exactly half of total national exports to that country. The Prairie provinces account for the bulk of the remainder of exports to Mexico — close to 35% of the national total. Alberta exported $489 million to Mexico in 2001, while Saskatchewan and Manitoba contributed $273 million and $176 million respectively. Grains, oilseeds, and animal products account for the bulk of exports from those provinces. Quebec was the only other province to sell more than $100 million in goods to Mexico in 2001.

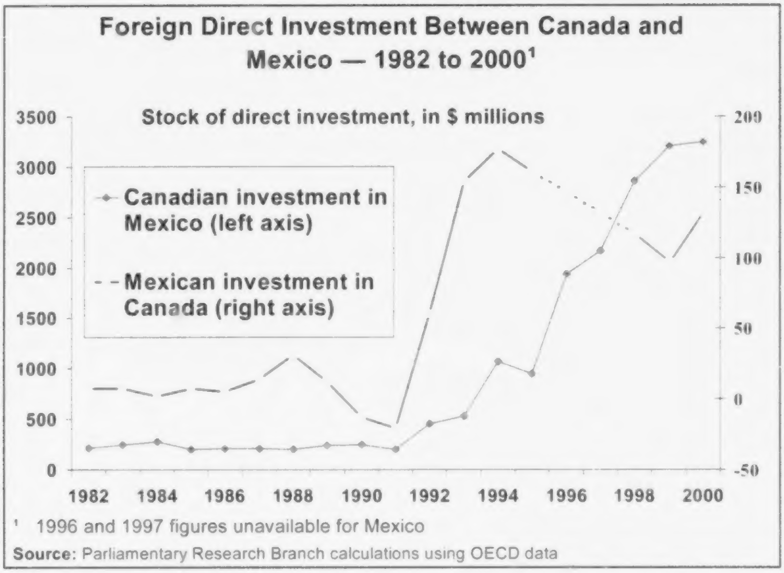
Exporters in Saskatchewan and Manitoba are most reliant on the Mexican market. For Saskatchewan, Mexico represents the final destination of 2.3% of provincial exports, while 1.9% of Manitoba's exports go to Mexico. For all other provinces, Mexico accounts for less than 1% of total exports worldwide.

This situation may, however, change in the near future as a number of provinces have seen strong growth in exports to Mexico. Five provinces have seen a tremendous increase in sales to Mexico, while the remaining five have not been as strong. Saskatchewan, Manitoba, Alberta, Nova Scotia, and Newfoundland and Labrador are Canada's growth leaders. Each of those provinces has seen exports increase by an average of at least 20% per year since 1990. Of the remaining provinces Ontario has posted healthy growth of 12% per year since 1990, but in the other four provinces exports have increased by less than 10% annually.

Investment

Typically, the priority of developing countries regarding foreign investment is to solicit assistance in developing the domestic economy rather than seek international opportunities. This is reflected in the investment relationship between Canada and Mexico, where FDI flows in a north-to-south direction.

The level of investment activity between the two countries has been significantly affected by the North America Free Trade Agreement. Canada's stock of FDI in Mexico was stable through most of the 1980s, but the following decade saw an explosion of Canadian investment in that country, rising from $245 million in 1990 to $3.5 billion ten years later.



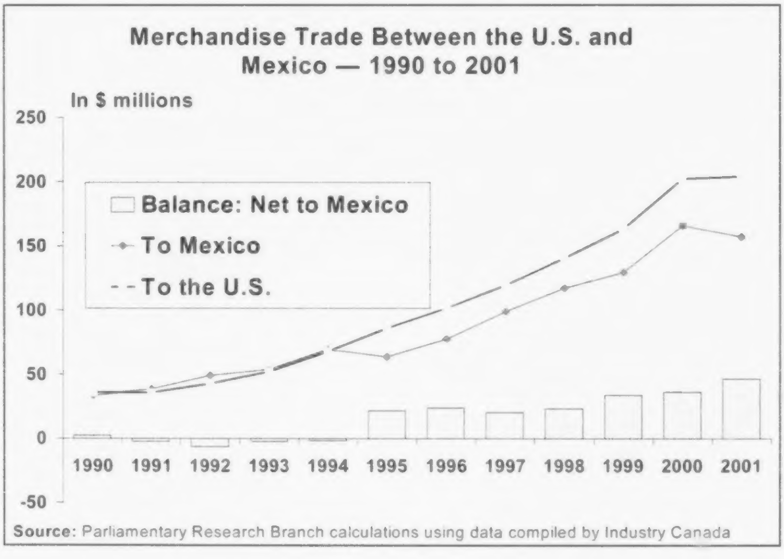
[1] 1996 and 1997 figures unavailable for Mexico

Source: Parliamentary Research Branch calculations using OECD data

In fact, while the importance of Mexico as a destination for Canadian FDI has risen considerably through the 1990s, Canada's investment there remains modest relative to its investment in other countries such as the United States. In 1990, only 0.2% of Canada's FDI stock was in Mexico. However, ten years later, that proportion had risen to 1.1%.

(c) The United States and Mexico

The bilateral trade relationship between the United States and Mexico is the second-largest within the NAFTA region. The United States and Mexico exchanged goods valued at $361 billion in 2001, accounting for 38% of all intra-North America trade.



Source: Parliamentary Research Branch calculations using data compiled by Industry Canada

Trade between the two countries has expanded considerably, by 428%, since 1990. While this is below the rate of growth of trade between Canada and Mexico, it exceeds by a considerable margin the rate of growth in Canada-U.S. trade from 1990 to 2001. Mexican exports to the United States have been particularly strong, expanding by 478% since 1990, and reaching $204 billion in 2001. As is the case with the Canada-U.S. trading relationship, the smaller country is the larger exporter. Mexico holds a trade surplus of about $46 billion with the United States.

Mexico's trading relationship with the United States is similar to Canada's. The United States is by far Mexico's most important export destination, accounting for nearly 89% of its total exports worldwide. Mexico also imports more from the United States than from any other country. About 73% of Mexico's imports come from the United States. Unlike Canada, however, Mexico's reliance on trade with the United States has fallen in recent years, despite the strong growth in trade between the two countries.

At the same time, while Mexico is the United States' second-largest export destination, it still only accounts for 14% of total U.S. exports. However, Mexico is rapidly growing in importance as a market for U.S. exporters: U.S. exports to Mexico have risen by 375% since 1990, the fastest rate of growth of any major U.S. trading partner except China. While the share of U.S. trade to Canada has remained relatively constant since 1990 — fluctuating between 21% and 24%, the share of U.S. trade to Mexico as a percentage of total U.S. trade has doubled over its 7% value in 1990.

In terms of U.S. imports, Mexico is growing in significance to the U.S. market as well. In 1990, 6.1% of U.S. imports came from Mexico, but with the strong growth in northbound trade in subsequent years, Mexico accounted by 2001 for close to 12% of total U.S. imports. As well, Mexico has become the second-largest source of imports into the United States.

Trade by Product

Trade between the United States and Mexico is concentrated in a few key product groupings. Machinery and equipment — particularly electronics — and motor vehicles and parts are the most significant export products shipped by Mexico to the United States, accounting for nearly 60% of the total in 2001.

Top Mexican Exports to the US

	1990		2001	
	$millions	% of total	$millions	% of total
Electrical/electronic mach. & equip.	9,037	25.7	51,730	25.4
Motor vehicles and parts	4,266	12.1	40,688	20.0
Machinery and equipment	2,786	7.9	28,206	13.9
Fossil fuels and related	6,170	17.5	15,814	7.8
Scientific/technical instruments	780	2.2	7,272	3.6
Woven clothing and apparel	647	1.8	7,233	3.6
Furniture, furnishings, prefab buildings	767	2.2	6,061	3.0
Knitted or crocheted clothing, apparel	102	0.3	5,196	2.6
Vegetables and roots/tubers	1,076	3.1	2,772	1.4
Articles of iron, steel	353	1.0	2,392	1.2
Sub-total	**25,985**	**73.8**	**167,364**	**82.2**
Others	9,220	26.2	36,147	17.8
Total	**35,205**	**100**	**203,511**	**100**

Source: Parliamentary Research Branch using data compiled by Industry Canada
Note: All figures in Canadian dollars

Although U.S.-bound trade is heavily concentrated in machinery and equipment and motor vehicles and parts, Mexico exports a diverse range of goods to its northern neighbour, and most categories have seen rapid growth in recent years. Exports to the United States since 1990 have at least tripled in nearly every major product grouping. Clothing and textiles, along with scientific and technical instruments, have seen particularly strong growth since then.

Top US Exports to Mexico

	1990		2001	
	$millions	% of total	$millions	% of total
Electrical/electronic mach. & equip.	6,549	19.8	38,485	24.5
Machinery and equipment	4,762	14.4	22,622	14.4
Motor vehicles and parts	3,958	12.0	17,108	10.9
Plastics and articles thereof	1,499	4.5	10,258	6.5
Fossil fuels and related	965	2.9	5,103	3.2
Scientific/technical instruments	1,188	3.6	4,968	3.2
Paper products	769	2.3	3,599	2.3
Articles of iron or steel	524	1.6	3,022	1.9
Organic chemicals	733	2.2	2,882	1.8
Cereals	1,032	3.1	2,361	1.5
Sub-total	**21,979**	**66.4**	**110,407**	**70.2**
Others	11,129	33.6	46,769	29.8
Total	**33,108**	**100**	**157,177**	**100**

Source: Parliamentary Research Branch using data compiled by Industry Canada
Note: All figures in Canadian dollars

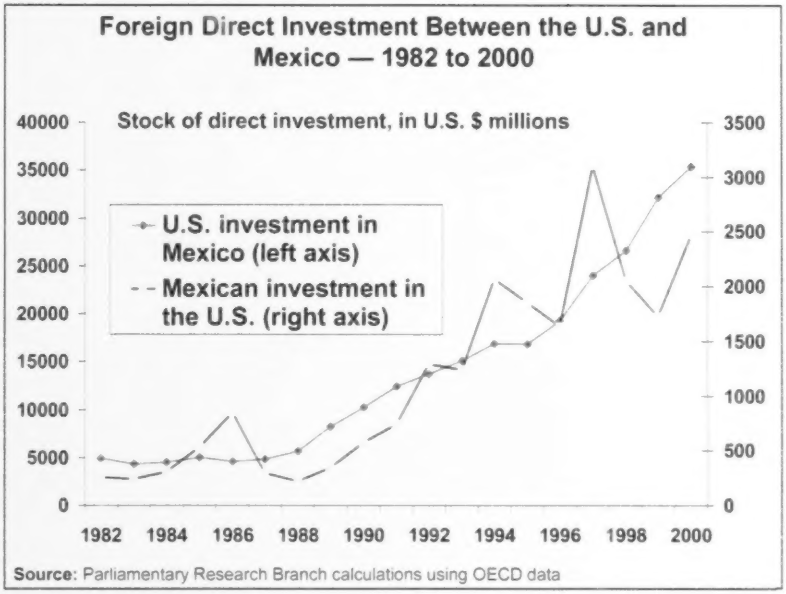
Trade in the opposite direction — from the United States to Mexico — is largely similar in its emphasis on machinery and equipment and motor vehicle sales — evidence of closely integrated industries and product specialization. Indeed, machinery and equipment exports to Mexico account for 39% of total U.S. exports, and within that category, sales of electronic and electrical machinery and equipment make up a quarter of the total. For their part, motor vehicles and parts represent about 11% of total U.S. exports to Mexico.

Also similar is the pattern of growth in major export products. All major U.S. exports to Mexico have realized solid gains since 1990. In fact, only two of the top 25 product groupings have failed to triple over the past eleven years.

Investment

The investment relationship between Mexico and the United States is dominated by southbound investment flows. The stock of U.S. investment in Mexico has risen considerably since the late 1980s, and particularly since the NAFTA was implemented in 1994. In 2000, U.S. investment in Mexico totalled U.S. $35.4 billion, an increase of 243% over 1990 levels. For its part, investment into the United States from Mexico is relatively small, but has grown considerably over the 1990s, reaching U.S. $2.5 billion by 2000.

The United States is the most significant source of FDI in Mexico. About 55% of total foreign investment in Mexico came from the United States in 2000. This is down slightly from 1990 levels when the United States accounted for 59% of Mexico's inbound FDI. For the United States, Mexico accounts for about 4% of the stock of U.S. investment.



Source: Parliamentary Research Branch calculations using OECD data

4. North American Economic Integration and Canadian Adjustment: Some Industry and Macroeconomic Effects

The FTA and NAFTA have accomplished their objectives of lowering barriers to, and increasing the value of, trade and investment within North America. Free trade between Canada, the United States, and Mexico has accelerated a long-term trend of tightening economic linkages in the region. Considering the relative size of the three countries, this process of integration has effectively resulted in exports to the U.S. market becoming a cornerstone of national economic production in Canada and Mexico.

Notwithstanding the effects of NAFTA, from a Canadian perspective North American economic integration effectively refers to the development of Canada's relationship with the United States. Trade and investment between Canada and Mexico have increased considerably in the post-NAFTA period, but they continue to be dwarfed by the size of the Canada-U.S. relationship. As mentioned above, bilateral merchandise trade between Canada and the United States totalled $569 billion in 2001, while Canada and Mexico exchanged less than $15 billion that year. The United States accounts for 76% of Canada's bilateral trade worldwide, while Mexico makes up about 2%.

(a) Integration at the Industry Level

Increasingly, Canadian industries are operating with a view of North America, and the United States in particular, as part of their domestic market. In virtually all Canadian industries, growth in exports to the United States outstripped the increase in overall manufacturing shipments through the 1990s. This suggests not only that a growing proportion of domestic output in Canada is geared towards the U.S. market, but also that the North American market is increasingly critical to the ongoing success of Canadian firms.

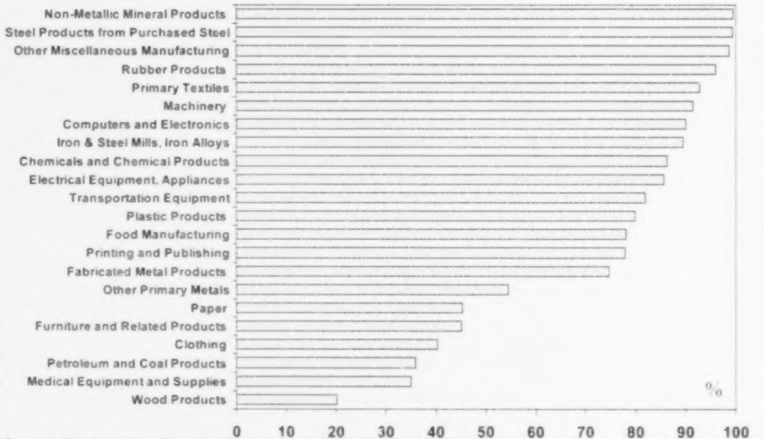
With the elimination of tariff and non-tariff barriers to trade, most industries in North America, particularly those involved in non-resource-based manufacturing, have access to common suppliers of raw materials and intermediate goods, and they compete for market share of a common customer base and capital investment base. Firms that operate in both Canada and the United States or Mexico trade between parent company and subsidiary. In the case of heavily integrated industries such as the automotive sector, goods can cross the Canada-U.S. border several times en route to completion of the final product.

As a result, the nature of trade within North America is changing in many industries, reflecting the effects of free trade and economic integration. Increased competition and intra-firm trade in North America frequently lead to greater industry specialization as firms or individual plants adapt their production to exploit comparative advantages and to meet the needs of specific niche or regional markets. This specialization may refer to industries focusing on specific product types or on specific aspects of the overall production process.

This increased specialization and integration within industries is reflected in the value of intra-industry trade between Canada and the United States. Intra-industry trade refers to the balance of two-way trade flows within specific industries. If one country dominates trade in a specific industry, then intra-industry trade levels will be low. In Canada, this is the case with a number of vertically-integrated resource-based industries where Canada is a substantial net exporter, particularly in the forest products and fossil fuel sectors.

Intra-Industry Trade Between Canada and the U.S. — 2001

As a Percentage of Total Trade – Selected Industries



Source: Parliamentary Research Branch, using Statistics Canada data

However, if trade between two countries in a given industry is relatively balanced, this can reflect a degree of market specialization within that industry, or competition for a specific market. In such cases, intra-industry trade levels will be higher. In Canada, this is true for a wide range of industries including mineral products, steel milling and steel products, rubber, textiles, machinery, transportation equipment, and high-tech goods.

The transportation equipment industry — the automotive sector in particular — is one of the most integrated industries in North America. Dating back to 1965 and the implementation of the Auto Pact, linkages have been tightening in the auto sector. The major automobile companies operate plants and invest across North America, trade heavily between parent firm and subsidiary, and through just-in-time delivery rely on the consistent free flow of products across the Canada-U.S. border.

The economic linkages in the auto sector are a contributing factor to the high level of integration in one of the sector's most important suppliers — the steel industry. Steel producers in Canada and the United States compete on a continental basis for contracts, relying on just-in-time delivery and the successful operation of a secure and trade-efficient border. Specialization in different aspects of steel production and intra-firm trade in steel has meant that, for steel as for the auto sector, a product can cross the Canada-U.S. border several times over the course of the production process.

There is also a considerable degree of cross-border investment and ownership in the steel industry. According to the Canadian Steel Producers Association, over half its members own affiliates in the United States or participate in joint initiatives with U.S. firms. Companies on both sides of the border produce according to a common set of standards and industry specifications. The extent of economic integration in the steel industry is evident in the fact that Canadian industries were exempted from recent U.S. antidumping and countervail actions.

As a reflection of the state of integration in the industry, Professor Isaiah Litvak suggested to the Committee that steel producers in Canada, the United States and Mexico explore establishing a North America steel industry association to promote their common interests. In fact, the steel industry is frequently held up as a model of North American economic integration. Advocates of further tightening economic linkages in North America, through a customs union for example, point to the steel industry as a candidate for a prototype agreement. This is discussed further in Chapter 4 of the report.

The ongoing process of economic integration in North America, particularly in the manufacturing sector, has also contributed to the rapid evolution of a continental energy market. Energy is a fundamental input into the production of all goods. Access to a stable and reliable energy supply is critical to the successful operation of the continental economy, especially in the context of the increasing industrial integration in North America. Consequently, continental trade in electricity, petroleum and natural gas has soared, aided by a concurrent increase in energy infrastructure investment, including transmission lines and pipelines.

Reflecting the strategic importance of energy, particularly in the context of the uncertain global political environment, Canada, the United States and Mexico established in April 2001 the North America Energy Working Group. The mandate of the group is to enhance energy trade in North America and to foster cooperation among the three governments in common regional energy issues, ranging from infrastructure and technologies to sustainable development and the environment.[43]

(b) Canada's Economic Performance

Prior to the implementation of the Canada-U.S. FTA in 1989, it was widely expected that lowering tariff barriers, increasing investment security and establishing a rules-based system for trading would, by tightening economic linkages between the two countries, yield a number of positive results for the Canadian economy. In addition to gaining improved access to the U.S. market, by opening the domestic market to competition from the United States the FTA was expected to increase the efficiency and productivity of Canadian industries. As both productivity and output grew, this would lead to employment and income growth. All these factors were, in concert, expected to result in robust economic growth in Canada.

In fact, the evidence on Canada's economic performance through the 1990s has been mixed. While Canada did enjoy strong economic growth in the late 1990s, its performance through the first two thirds of the decade was relatively poor. However, because of the multitude of factors that influence economic performance, it is difficult to attribute this period of reduced growth exclusively to the effects of free trade and economic integration.

Not the least of these factors was the recession that ushered in the 1990s. Both Canada and the United States implemented the FTA at the peak of their respective business cycles and fell into recession soon thereafter. This occurred independently of the effects of the trade agreement. A number of policy developments also contributed to the temporary weakness in the Canadian economy in the early- to mid-1990s. Among them, the Bank of Canada was implementing its policy of "price stability" — working to lower the inflation rate to near-zero levels — early in the decade. Achieving this goal required the Bank to temporarily maintain a high interest rate policy even while the struggling economy would have benefited from lower rates. This policy had the short-term effect of slowing Canada's recovery from the recession. In addition, fiscal policy also placed a damper on economic growth as the federal and provincial governments worked to eliminate their respective budget deficits.

Although the fact was obscured by these and other factors, free trade and economic integration did play a role in Canada's temporary period of slow economic growth in the early 1990s. In order to realize the expected long-term benefits of integration — economic expansion, efficiency and productivity gains, and income growth, to name a few — the Canadian economy had to undergo a short-term period of adjustment in response to the new free trade environment. While many industries already competed tariff-free with the United States, firms in industries that had been heavily protected by tariffs prior to 1989 were forced to adapt to direct competition. Those unable to do so exited the market. The resultant reallocation of resources across the Canadian economy is reflected in the employment record of the Canadian manufacturing sector in the early 1990s.

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[43] North American Energy Working Group, *North America — The Energy Picture*, June 2002.

In the United States, by contrast, the adjustment process was relatively small. Although Canada is the largest destination for U.S. exporters, Canada accounted for only about 21% of U.S. exports in the late 1980s. With a large domestic market and more diversified export base, the short-term impact in the U.S. of increased economic linkages with Canada was considerably more modest, given the size of the U.S. economy as a whole.

As a result of this combination of factors — the differing magnitude of the recession in the two countries, tighter monetary and fiscal policies in Canada, and the structural adjustments in the Canadian economy — GDP and employment growth in the United States significantly outpaced Canadian economic expansion through most of the 1990s. By the mid-to-late 1990s, however, structural adjustments in Canada had run their course, monetary and fiscal policy changes had been made, and the Canadian economy began to make strong gains.

In consequence, Canadian GDP and employment growth once again began to compare favourably with that of the United States late in the decade. The Canadian economy outpaced the U.S. economy in four of the five years from 1997 to 2001 and is expected to have done so again in 2002. Similarly, the Canadian labour market has begun to close the gap in job creation rates that had built up from 1989 to 1998.

In the same way that a host of factors make it difficult to blame Canada's weak economic performance in the early 1990s on the fallout from free trade and tighter economic linkages with the United States, Canada's more recent strong performance cannot be attributed simply to the effects of the NAFTA. Several other factors are contributing, including the export-side advantages of a weak Canadian dollar, improved monetary and fiscal conditions, and the robust nature of the U.S. economy, which has served as a magnet for Canadian exports. However, Canada's recent economic performance is in line with expectations of the long-run benefits of free trade and economic integration.

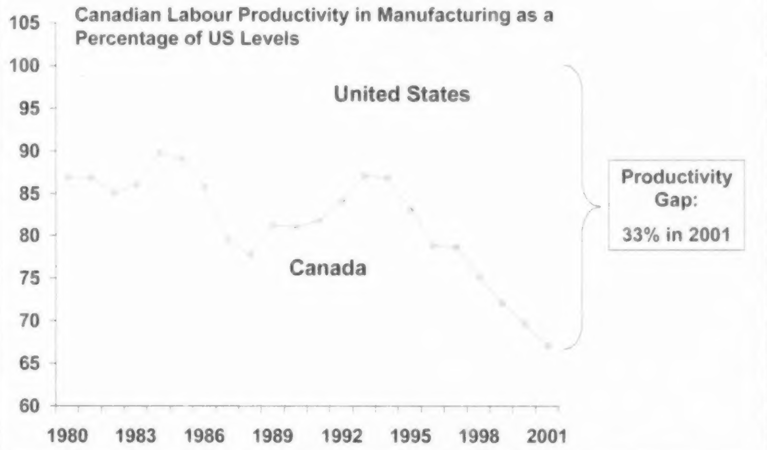
While Canada's general economic outlook has improved relatively to the United States in recent years, there is one notable area where this is not the case. Canada has not been able to keep pace with the considerable growth in labour productivity in the U.S. since the early 1990s. A boom in business investment in new machinery and equipment in the late 1990s led to a surge in U.S. productivity levels. While the Canadian economy has seen steady productivity gains through most of the decade, it has lost ground relative to the United States.

As a result, the gap in labour productivity between Canada and the U.S. has widened since the mid-1990s, particularly in the manufacturing sector. In 1995, the Canada-US productivity gap was 17%; six years later, it had widened to 33%.

Narrowing this gap is critical to the long-run health of the Canadian economy and to the standard of living in Canada. In general, as productivity increases the cost of labour falls (per unit of output), paving the way for higher wages and output levels. As such, productivity gains are key to maintaining and improving Canada's standard of living.

The need to improve productivity levels is especially of concern in the context of the tightening economic linkages between Canada and the United States. As economic markets continue to integrate, differences in productivity rates will have a greater impact on the choices made by businesses and investors. Since the entire North American market is accessible from either country — as well as from Mexico — firms and investors will be attracted to the areas which offer the greatest economic advantages. Productivity and innovation attract investment, which in turn promotes further productivity gains.

The Gap in Labour Productivity Between Canada and the U.S. is Widening



Source: Parliamentary Research Branch calculations using US Bureau of Labor Statistics data and methodology from the Centre for the Study of Living Standards

At the same time as Canada's productivity gap with the U.S. has been widening, Canada's share of foreign direct investment (FDI) has also been falling. Although the *value* of FDI entering Canada has increased considerably over the 1990s, the *proportion* of FDI in North America that goes to Canada has dropped. Prior to the implementation of NAFTA, concerns were raised that foreign investors would overlook Canada in favour of opportunities created by low-cost labour in Mexico. As Industry Canada Deputy Minister Peter Harder told the Committee, it is the productivity and dynamism of the U.S. market that has been attracting new investment.[44]

A critical policy challenge, as Harder stressed, is for Canada to improve its productivity record in order to exploit the virtuous cycle of productivity attracting investment that in turn feeds productivity. Productivity gains not only improve Canadians' standard of living; they are also critical in Canada's efforts to increase its share of the U.S. import market, especially in light of increased competition for those markets from Mexico.[45]

The weaknesses in Canada's productivity record have been held up as an example of how free trade and North American economic integration have failed to live up to their original promise. But as is the case with other economic indicators, attributing Canada's relative decline in productivity levels exclusively to the effects of economic integration overlooks the effects of a host of other factors. Moreover, according to research by Professor Daniel Trefler of the University of Toronto, the Canada-U.S. Free Trade Agreement and the resulting economic integration between the two countries has in fact had a *positive* effect on labour productivity levels in the manufacturing sector in Canada, as expected prior to the implementation of the agreement.[46] This suggests that in the *absence* of the FTA, Canada's productivity record would likely have been worse than the current data indicates.

There are several ways in which free trade and economic integration could have been expected to positively influence productivity growth rates: trade could increase firm-level output, allowing plants to take advantages of economies of scale in production; investment could increase the use of capital and equipment; tariff reduction could result in a shift of production from inefficient firms to more productive ones; new, more competitive firms could replace older ones (new businesses tend to be more efficient); and firms could adjust their production to higher-value-added manufactures. In testing these possibilities, Trefler's study concludes that plant turnover — the replacement of older plants with newer, more productive ones — and significant, large gains in production efficiency have been the two sources of trade-related productivity gains in Canada. Such studies reinforce the general point made earlier about the need to increase our knowledge of the phenomenon of an emerging North American economic space, based on careful ongoing empirical analysis of the many dynamic factors affecting a challenging Canadian policy environment.

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[44] *Evidence*, Meeting No. 90, June 13, 2002.

[45] Ibid.

[46] Daniel Trefler, "The Long and the Short of the Canada-US Free Trade Agreement," *Working Paper*. Canadian Institute for Advanced Research (CIAR) and National Bureau of Economic Research (NBER), University of Toronto. (revised April 16, 2001). Trefler concludes that free trade has raised Canada's labour productivity rates across all manufacturing industries by a compounded annual rate of 0.6% per year. Productivity gains were found to be greatest in the low-end manufacturing industries which had experienced the deepest tariff cuts coming out of the FTA. For those industries — a group which includes clothing, furniture, and rubber and plastic products — the gains were closer to 2.1% per year.

PART II

CANADIAN PRIORITIES FOR ADVANCING NORTH AMERICAN RELATIONS

CHAPTER 3: THE FUTURE OF SECURITY AND DEFENCE COOPERATION IN NORTH AMERICA

It will require an extraordinary effort on our part to demonstrate that not only are we not a threat, but we are an asset, and our friendship, our neighbourliness and our cross-border commerce are assets to them [the United States] that they need to take into consideration in deciding how to deal with their own sense of vulnerability.

Hon. John Manley,
Evidence, Meeting No. 40, November 6, 2001.

... it should be noted that Canadian policy-makers and academics have no tradition of examining NAFTA through the lens of security. Indeed they can be quite hostile to the suggestion of such a possibility. This reflects the extent to which the concept of free trade was contested in Canada, its links in those debates to the question of sovereignty, and also lingering Canadian discomfort with American hegemony. For better or worse, however, participation in NAFTA has had significant implications for Canadian security, broadly defined. The events of 11 September made those implications far clearer.

S. Neil MacFarlane and Monica Serrano,
"NAFTA: The Security Dimension[1]."

WHAT WITNESSES SAID

If you speak to an American expert ... he will tell you categorically that the problem is that our security policy is very lax. We have a bad system. We let people in. The problem is not Canada as such. He would say that if the Americans solve their problems, they would like Canada to solve its problems so that they feel safe on that front. And I imagine they say the same thing to Mexico.

This is an intellectual question. The only lever we have at the moment is an intellectual one, failing a significant military lever. ... We have to make them understand that a strong Canada is in their interest and that a strong Canada is not necessarily one that adopts American policies. However, it is a Canada that protects American interests as well as its own, because it is in its interest to do so.

Daniel Schwanen,
Institute for Research on Public Policy,
***Evidence*, Meeting No. 64, February 28, 2002.**

In the case of defence, the fundamental reality is we can't defend ourselves by ourselves against a major external attack, and we do have a basic security bargain with the United States that dates all the way back to 1938. It says the following. The essence of it is that the United States will defend us, and we agree not to become a source of military weakness to the United States. How to work out that bargain, of course, is the question. We have to provide the necessary assurance to the Americans that we will not become a security liability to them. We don't have the option, really, of acting unilaterally in the circumstances, given the nature of the threat we face, so we almost have to do it in a cooperative way.

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[1] S. Neil MacFarlane and Monica Serrano, "NAFTA: The Security Dimension," in Louise Fawcett and Monica Serrano, eds., *Regionalism's "Third Wave": The Americas* (forthcoming; cited by permission of the authors).

This doesn't mean you've sacrificed your interests; in fact, it might be a way of maximizing them. When you participate with the United States, you try to maximize the security of your own country and you also gain access to the U.S. strategic decision-making process.

Don Barry, University of Calgary,
Evidence, Meeting No. 80, May 8, 2002.

On September 11 we learned that chaos in poor, weak countries halfway around the globe can make a very big difference to us. ... That means there is going to be a new context for Canadian-American cooperation and our famous long undefended border. We have to realize that you can no longer do things at borders alone. Borders are now zones, and as this Committee knows from its work on smart borders, the new way of thinking about this is that we have to operate inside your borders, you have to operate inside our borders. Some people will say, isn't that a derogation of Canadian sovereignty? Not in the least, any more than it is a derogation of American sovereignty. It means we have to get away from our traditional concepts of what borders mean and learn to act cooperatively if we're going to cope with the threats that come from ... this new dimension of transnational relations.

Joseph Nye, Harvard University,
Evidence, Meeting No. 74, May 2, 2002.

Without direct exposure to the deep feelings, insecurity, and vulnerability our American cousins feel right now, it is difficult for governments to justify to their citizenry, and to themselves, the security measures that must be taken to address the fears. We have also learned that what we want to do is protect a shared way of life that is being opposed and threatened by extremism. Our friends in the U.S. must also try to understand if we disagree about particular measures, we're no less committed to their security and to our shared community.

Brian Stevenson, University of Alberta,
Evidence, Meeting No. 82, May 9, 2002.

... popular opinion in Canada is that we should always be sure to remain distinct vis-à-vis the Americans on our foreign and security policy. My argument is that this would be a mistake, because the values I think most Canadians share in foreign and security policy are identical to the values that the Americans share. The wars the Americans have fought recently have been fought for reasons that most Canadians find entirely acceptable, morally justifiable, and ethically defendable. If you want to protect our sovereignty, protect it in terms of the values and interests that we espouse. Sometimes that means supporting the Americans.

Frank Harvey, Dalhousie University,
Evidence, Meeting No. 61, February 27, 2002.

While Canada ought to continue with a cooperative and coordinated approach with the United States concerning North American security, it would be quite wrong to integrate Canadian and American military capability.

Our model of cooperation has served us well. There is no compelling reason why our sovereignty needs to be compromised by submitting our military capability to American command. We have shown in a number of multilateral missions and endeavours, whether under NATO or UN command, that Canadian troops can indeed serve well in integrated military structures. There is nonetheless a signal difference between joining a multilateral mission and placing our troops under the dictate of a neighbouring power, no matter how benevolent.

Satya Das,
Evidence, Meeting No. 82, May 9, 2002.

I think the focus on homeland security is very much a function of September 11 last year. When you come to look at it and try to do something with it, it is again a blend of international and domestic politics. But from the domestic side of it, I think we're really concerned about vulnerability. What are our vulnerable points? Where are we open that somebody who wished to do us harm could have quite a free shot?

Peter Haydon, Maritime Affairs,
Evidence, Meeting No. 59, February 26, 2002.

If you examine the root causes of political instability, especially in the poorest regions of the world, you see that simply dealing with security as a border issue or a banking issue, while I don't think anyone disagrees with those efforts, is not enough. Unless you address the core, root issues of terrorism, which are already on the agenda for this summit — that is, global poverty, inequality — then we're not going to solve anything.

Jim Selby, Alberta Federation of Labour,
Evidence, Meeting No. 82, May 9, 2002.

On increased military spending, we feel it's likely the Canadian public could accept a small increase in spending to better achieve civil defence priorities, particularly as they have been identified since September 11. We do want to stress that increases to defence spending are one thing; funding that would support military aggression is quite another.

Kerry Duncan McCartney, Project Ploughshares Calgary,
Evidence, Meeting No. 80, May 8, 2002.

… because we have an integrated economy … does that mean we cannot espouse our values? I would say … that my approach to these questions is not to go at the United States, but rather to manifest our friendship with the United States — which we have done in countless ways I won't take time to enumerate — and say to them … that as your good neighbour and your good friend, we have to tell you some things. We see security in the world coming out of a basis of international law and an agenda in which the social and economic conditions of the world are related to developing the conditions for security. We do not see security coming out of the barrel of a gun or that more weapons and more nuclear weapons are going to produce security.

That's a fundamental difference in our views. I think it ill behoves the Government of Canada, let alone all the people like us in Canada, to pretend that there are not these distinctions in how each of us approaches questions of security. I think, moreover, we would not be faithful to our obligation to the United Nations and everything it stands for were we to sort of knuckle under to the U.S. security demands being made upon us today, when thinking Canadians recognize that those demands are wrong.

Senator Doug Roche,
Evidence, Meeting No. 82, May 9 2002.

In the present circumstances, it would be very interesting to have a Canadian picture of what North American defence, including Mexico, actually means. How do we see it? All I've seen from the Department of National Defence is roughly a discussion of Canada, and not so much a discussion of North America and Canada's role in it, or a high level of appreciation of where we go from here and how we fit into what needs to be done.

Guy Stanley, University of Ottawa,
Evidence, Meeting No. 90, June 13, 2002.

3.1 Introduction: Approaching the New Security Environment in North America

The tragic terrorist attacks of September 2001, as well as the unrelated anthrax attacks soon after, shattered the assumption of many that the United States, the world's most powerful nation, was invulnerable to attack on its own soil. The events resulted in a renewed focus in the United States not only on security in general, but on "homeland security," for which domestic actions are even more important than military ones. Given the degree of economic integration in North America, the immediate U.S. move to virtually close its borders had significant economic impacts on both Canada and Mexico and required their governments to increase security cooperation with the United States, if only to prevent further unilateral action. The real challenge was whether they could do so while still preserving key Canadian, and Mexican, values in a number of areas.

Canadians as well as Americans have suffered from terrorism — although not to the same degree — and all witnesses agreed with the need to increase security within Canada. Likewise, almost all agreed that this would require increasing security cooperation with the United States. There were differences, however, over how far this cooperation should go, and whether it should be governed by new formal agreements or simply evolve from current arrangements.

In terms of military cooperation, Canada dispatched significant naval, land, and air forces to Afghanistan and surrounding areas as part of the campaign against terrorism, and Canadian and American personnel have also operated at an enhanced tempo within the North American Aerospace Defence Command (NORAD) during the past year. Despite the very close defence relationship between the two countries, recent years have seen differences over a number of issues with continental implications, notably U.S. plans to develop missile defences and the U.S. belief that Canada does not spend enough on defence. The focus on security after September 11 has renewed calls for closer continental cooperation to defend North America from new threats. For example, Dr. Jack Granatstein of the Council for Canadian Security in the 21st Century told the Committee that the United States would take whatever action it deemed necessary to ensure its security; hence, in his view, Canada now had "no choice" but to agree to long-standing U.S. demands in these areas if it wished both to continue its close partnership and to retain sovereign control over its defence.[2]

In fact, while the Canadian government has taken important action over the past year to increase both its capacity to fight terrorism and its security cooperation with the United States, the primary focus has been on the Canada-U.S. border. The response to the attacks in this area, and the lengthy debate over border issues that preceded it, has underlined the complex relationship between economics and security in the two countries. As Christopher Sands has argued, the United States has learned that security measures cannot ignore economic concerns, while Canada has learned that economic concerns do not trump security ones.[3]

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[2] *Evidence*, Meeting No. 79, May 8, 2002.

In a broader sense, many believe that the attacks, and the subsequent military campaign in Afghanistan, have strengthened a predisposition toward unilateralism in U.S. foreign policy. In a speech at West Point in June 2002, President Bush said: "If we wait for threats to fully materialize, we will have waited too long." Instead, America would be ready for "pre-emptive action when necessary."[4] Similar arguments were contained in the September 2002 *National Security Strategy of the United States of America*.

The focus of this report is on the future of relationships in North America. But as we indicated in Chapter 1, these occur within a broader Canadian foreign policy context in which Canada has traditionally pursued its interests and values through multilateralism and respect for international law, as well as through encouraging U.S. engagement with the rest of the international community. This is all the more important since, as American experts Joseph Nye and Stephen Flynn argued separately before the Committee, in an era of globalization the United States can only truly increase its security by working cooperatively with other states. The Committee heard from a number of witnesses on these points, and also included their perspectives in its June 2002 report *Securing Progress for Africa and the World: A Report on Canadian Priorities for the 2002 G8 Summit*.

A number of the border and other actions taken over the past year will have long-term consequences that must be monitored. Moreover, the high-profile defence and foreign policy issues noted above remain to be addressed. As the Government considers this agenda, the Committee agrees with the point made to us by Peter Coombes of End the Arms Race that "Canada's security is far, far too vital to be left to the military experts, to the security experts."[5]

3.2 Bilateral or Trilateral Approaches to Security?

That NAFTA now has a security dimension, few would dispute. What to make of it is another question.

Neil MacFarlane and Monica Serrano,"NAFTA: The Security Dimension."

... although the vulnerability between the U.S. and Mexico on the one hand and the U.S. and Canada on the other is mutual, it is far from symmetrical. The United States economy, for one, would not be affected in anywhere near the measure that the economies of its partners would be in the event of any interruption.

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[3] Christopher Sands, "Fading Power or Rising Power: 11 September and Lessons From the Section 110 Experience," in Norman Hillmer and Maureen Appel Molot, eds., *Canada Among Nations 2002: A Fading Power*, Oxford University Press, Don Mills, 2002, p. 65-68.

[4] "President Bush Delivers Graduation Speech at West Point. Remarks by the President at 2002 Graduation Exercise of the United States Military Academy West Point, New York," *White House News Releases*, June 2002. See also the International Institute for Strategic Studies, "Dealing With the 'Axis of Evil': The U.S. and the 'Perilous Crossroads,'" *Strategic Comments*, Volume 8, Issue 5, June 2002.

[5] *Evidence*, Meeting No. 76, May 6, 2002.

> *threatened or implied, in [the free flow of goods]. U.S. vulnerability, we must remember, has other dimensions, as we saw most horribly and tragically on September 11, but it is not only the threat to its security from terrorism but the threat from trade in drugs, trade in people, and other global flows that preoccupy the U.S. policy-makers. These vulnerabilities, I may note, we share with them profoundly as a fellow modern society in North America. However, in U.S. perception, often that sharing seems to be asymmetrical.*
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> George Haynal, Former Assistant Deputy Minister for the Americas, DFAIT, *Evidence*, Meeting No. 56, February 7, 2002.

If there was one area in which a two-speed North America was evident before last September, it was in the realm of security cooperation, in terms of both "public safety" issues such as terrorism and crime, and of military security. Canada and the United States have had a highly developed relationship in these areas for decades. The United States and Mexico have a very limited one, based mainly on 1996 bilateral agreements on defence and security cooperation. Canada and Mexico have virtually none. The borders within North America reflected this reality, with Canada and the United States sharing what they took pride in calling "the world's longest undefended border," while the much shorter U.S.-Mexican border was significantly fortified to prevent both illegal (or, as the Mexican government prefers, "undocumented") immigration and drug smuggling into the United States.

In a press conference last November following what Mexican scholar Dr. Monica Serrano (who testified before the Committee in Mexico City) has referred to as "Mexico's distant, delayed and clearly mishandled response to the terrorist attacks … ," President Fox called for the development of a "North American Security Policy" that would include coordinating border policies and sharing immigration and customs information.[6] The United States and Canada did not take up this suggestion; they focused instead, in the interest of speed, on using existing and extensive bilateral channels to increase security in their countries.

Nevertheless, the fact that President Fox made this suggestion signalled a change in Mexico's traditional security orientation, as did its September 2002 decision to withdraw from the OAS's Inter-American Treaty on Reciprocal Assistance (Rio Treaty).[7] Bilateral defence and security cooperation between Canada and Mexico has so far been quite limited — for example, to Mexican participation in peacekeeping training in Canada.[8] Yet in January 2002, during the first official visit of a Canadian defence minister to Mexico, the Hon. Art Eggleton noted in a speech that " … ultimately, the relation between our two countries is based on more than trade and economy. It is also based on a shared commitment to international peace and security, a cause we cannot afford to neglect."[9] While the Minister spoke of *international* peace and security, Mexico's Under Secretary of Foreign Affairs Enrique Berruga reminded the Committee during meetings in Mexico City that the Mexican government would like the three countries to work together and share best practices in order to secure the region. At the same time, Neil MacFarlane and Monica Serrano observe little evidence of any movement in a trilateral direction towards eventually adding structures of security and defence cooperation, as a "security pillar" to NAFTA.

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[6] Monica Serrano, "U.S.-Mexico Security Relations in the 21st Century," in Peter Andreas and Tom Bierstecker, eds., *Re-Bordering North America? Integration and Exclusion after 9-11*, New York, Routledge (forthcoming).

[7] Canada did not join the Rio Treaty when it joined the OAS in 1990, yet does not discount its usefulness to its member states.

[8] See Hal Klepak, "Hemispheric Security After the Towers Went Down," Canadian Foundation for the Americas (FOCAL), *FOCAL Policy Paper* FPP-02-4, Ottawa, February 2002.

When questioned by Committee members about the role of Mexico in this regard, Jack Granatstein responded: "I don't think the defence of North America properly belongs to a tripartite arrangement. We can trade in a tripartite way, but in military terms the reality is that the defence of North America is primarily American and secondarily Canadian and American. I think it would be a mistake for us to pretend anything else." He added that "The Mexican armed forces, while numerous, are a light year behind Canadian forces, and two light years behind American forces, in sophisticated technology and modern war-fighting capability. They're essentially an internal security force that aims to keep the Mexican people down — you'll forgive me for saying that, but it happens to be true."[10]

Professor George MacLean put it less provocatively:

> On the issue of Mexico and defence and security integration ... there's not much interest in the United States or in Canada to try to integrate security forces, defence forces, aside from issues like border issues, migration, and so forth ... I've certainly not seen any discussion within the ministry of defence in Mexico City about integration with Canada. I think there would be eyebrows raised. "Why on earth would we have military integration with Canada? We barely have economic integration with Canada." That's often the Mexican response .... There is a desire in Mexico to be more integrated in a defence context with the United States, though that hasn't been reciprocated in any real way in Washington.[11]

Yet the existence of a North American economic community, which is likely to deepen in the future, leads some to argue that a trilateral security and defence partnership in North America would be a natural development. Professor Stéphane Roussel, for example, argued forcefully: "Economic integration requires security integration. The two are closely linked, and I do not think that we can leave Mexico on the sidelines for very long."[12] Similarly, Professor Theodore Cohn made the point that "if we deal with some of these cross-border issues in genuine trilateral terms, I think we're going to make further progress than trying to keep the clock back and say we're different from the Mexicans. We are different; we're very different. But this is a North American issue."[13]

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[9] "Speaking Notes for the Honourable Art Eggleton, Minister of National Defence, at the Mexico Defence College," Mexico, Mexico City, January 22, 2002, p. 6.

[10] *Evidence*, Meeting No. 79, May 8, 2002.

[11] *Evidence*, Meeting No. 75, May 6, 2002.

[12] *Evidence*, Meeting No. 77, May 7, 2002.

Even in terms of defence, Professor Michael Byers, the author of a high-profile study entitled *Canadian Armed Forces Under U.S. Command,* argued: "We're talking about North American defence. It seems to me obvious that if we're moving forward on North American defence with the United States, Mexico should be at the table as well. They're a very important partner in NAFTA. They have the same concerns as Canada has."[14] Professor Guy Stanley of the University of Ottawa agreed, saying:

> I ... believe it would be desirable to include Mexicans in the [defence] discussion and dialogue because we don't know what the direction of American policies will be in the near future. If we want to be able to encourage or to deter some things, we'd better have a major and recognized contribution, and a partner who supports us or shares the same perspective with us and who is capable, in a trilateral context, to provide a stronger dimension and a higher value than what can be done unilaterally. Otherwise, I would be concerned about the decisions the Americans will be making in the short term.[15]

From a practical point of view, day-to-day defence and security cooperation in North America will undoubtedly remain a bilateral issue at least in the medium term. After speaking last November of the "very deep and profound sense of cooperation" that exists between Canada and the United States on security issues, Jon Allen, Director General of DFAIT's North American Bureau added: "Right now, because of the issues perhaps of transparency and development, that doesn't exist between the Americans and the Mexicans. It will come. And as it comes, there will be an ability, I think, to then deal as a perimeter."[16] The Committee believes that the advantages of a trilateral approach to security relations in North America will become increasingly obvious over the longer term. The sooner, therefore, the three countries begin to think about and work toward this goal, the better.

Recommendation 8

The Government of Canada should increase its bilateral security cooperation with Mexico. The Government should also examine means of beginning a trilateral dialogue with the United States and Mexico to explore common perspectives on security issues in North America.

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[13] *Evidence*, Meeting No. 76, May 6, 2002.

[14] Ibid. See also *Canadian Armed Forces Under U.S. Command*, Liu Centre for the Study of Global Issues, University of British Columbia, May 2002.

[15] *Evidence*, Meeting No. 90, June 13, 2002.

[16] *Evidence*, Meeting No. 57, February 19, 2002.

3.3 Securing Our Borders

… at the heart of American concern … is the issue of security. And at the heart of our relationship with the Americans is a law enforcement and intelligence cooperation that backs that relationship. So on customs and immigration, we can have a deep and profound sense of sharing, because behind it we have a very deep and profound sense of cooperation.

Jon Allen, Director General,
North American Bureau, DFAIT,
Evidence, Meeting No 57, February 19, 2002.

By the 1990s, despite the fact that they took great pride in "the world's longest undefended border," Canada and the United States both recognized that important cross-border issues needed to be resolved. They therefore created several new fora between 1997 and 1999, including a Border Vision Initiative focused on immigration and smuggling, a Cross-Border Crime Forum focused on law enforcement cooperation, and a broader Canada-U.S. Partnership (CUSP).[17] Overall, however, these fora resulted in little in practice, because mainly of a lack of sufficient political interest on either side of the border.

The primary focus of U.S. border concerns in the 1990s was illegal immigration from Mexico. Despite the significant differences between the United States' northern and southern borders, Congress attempted to address them through common legislation, with significant implications for Canada. The most important of these was the "Section 110" requirement to document the entry and exit of all "aliens," which threatened crippling delays at the Canada-U.S. border. The implementation of this requirement was repeatedly delayed, however, partly as a result of Canadian lobbying. Unfortunately, entry/exit controls — which American expert Demetrios Papademetriou recently described as "a mindless approach that will simply create additional difficulties for us, any way you slice that particular pie"[18] — have now been included in post-September 11 legislation. Canada will therefore have to deal with its implications once again, although hopefully this will be easier under the new border regime discussed below.

Another negative result of the U.S. focus on Mexico in the 1990s was that one-third of American border enforcement agents were "temporarily" transferred from the northern to the southern border.[19] They never returned, leaving the northern border understaffed. In the fall of 2001, some 832 U.S. border patrol agents and inspectors were assigned to the northern border, compared to over 9,500 assigned to the southern border.[20] This fact would later contribute to the arguments of some that the Canadian border was a security threat to the United States.

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[17] The work of CUSP will be discussed further in the following chapter.

[18] Tim Naumetz, "Expert Slams 'Mindlessly' Beefed-Up Border," *The Ottawa Citizen*, September 24, 2002.

[19] Christopher Sands (2002), p. 52.

[20] See Lisa M. Seghetti, "Border Security: U.S.-Canada Border Issues," *CRS Report for Congress*, Washington, Congressional Research Service, 8 July, 2002, p. 2.

On the other hand, U.S. officials did have concerns about specific Canadian policies. Following a number of cases of diversion of U.S. weapons technology, in 1999 Canadian exemptions under the International Trade in Arms Regulations (ITARS) were removed. This action seriously affected the export of military technology to Canada until the Canadian system was tightened and the exemptions restored in 2001. In terms of refugee policy, as Stephen Gallagher noted before the most recent policy changes, the fact that Canada had no "policies or practices that give the government the power to control and remove the majority of asylum-seekers who do arrive" made it "unique among advanced industrial nations."[21]

According to former senior Foreign Affairs official George Haynal, the issue of "national security" as such did not "meaningfully" enter bilateral border discussions until after U.S. authorities arrested Algerian terrorist Ahmed Ressam, an illegal resident of Canada, as he was attempting to enter the United States with bomb-making materials in December 1999.[22] U.S. Attorney General John Ashcroft later admitted that it was Canadian intelligence that led to the arrest of Ressam; yet the incident seemed to many proof of an earlier comment, attributed to former U.S. Ambassador to the United Nations Richard Holbrooke, that Canada was a "Club Med for terrorists."[23] Following the September 11 attacks, this perception was fuelled by erroneous reports, in media including *The New York Times* and in statements by politicians such as Senator Hillary Clinton, that some of the September 11 hijackers had entered the United States from Canada.

This was, as Dr. Yasmeen Abu-Laban pointed out, an "extreme portrayal," the logical policy conclusion of which "would suggest that Canada will only cease to be a threat to America if Washington determines all aspects of Canadian immigration." In her view: "That is why there needs to be a vigorous defence of our immigration system from policy-makers; it relates to Canadian needs and values and interests, and we have a public relations problem."[24] Security and intelligence expert Reg Whitaker agreed that "the post-September 11 security problem posed by the Canadian border was never as serious as journalistic and political critics have suggested. Canada is not now and never was a Club Med for terrorists, despite some irresponsible and ill-informed criticism." As he explained:

> Canadian rules and procedures for preventing the entry of terrorists and criminals have long been roughly equivalent to those in the United States. Indeed, intelligence sharing has meant a common database on the bad guys that is strongly influenced by American intelligence and American interpretation.

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[21] Stephen Gallagher, "The Open Door Beyond the Moat: Canadian Refugee Policy From a Comparative Perspective," in Hillmer and Molot (2002), p. 117.

[22] George Haynal, "Interdependence, Globalization and North American Borders," prepared for presentation at the Symposium on Governance and Public Security, Alan K. Campbell Public Affairs Institute, Maxwell School, Syracuse University, 18 January 2002, p. 14.

[23] Stephen Clarkson, *Uncle Sam and Us: Globalization, Neoconservatism and the Canadian State*, Toronto, University of Toronto Press, 2002, p. 403.

[24] *Evidence*, Meeting No. 82, May 9, 2002.

> September 11, in any event, revealed that the U.S. itself was hardly watertight and indeed guilty of considerable laxity. It is not quite the model that some have held it to be....
>
> I think basically if there was a gap — and there was, in the past, a gap between Canadian and American performance — in immigration security, it was not in regard to rules and procedures but in enforcement. Canada did not in the past put as many resources into enforcement as the U.S. did. That gap is now narrowing, with the additional resources for security provided in the 2001 budget.
>
> Apart from certain U.S. politicians and certain U.S. media outlets, the image of the Canadian border as a security risk has not actually made much headway with the U.S. public, according to recent polling by EKOS Research.[25]

There were also areas in which Canadian security was tighter than its American counterpart. In one example cited by Stephen Clarkson, Canada had instituted a system in 1996 that allowed officers posted at airports abroad to stop more than 33,000 people with false documentation before they boarded planes for Canada.[26]

In a September 2002 article, Reid Morden, a former Director of the Canadian Security Intelligence Service (CSIS) and former DFAIT deputy minister who testified before the Committee in early 2002, affirmed that "Canada is neither a security threat to the United States nor a haven for terrorists." But he also added: "On the other hand, it is legitimate to ask ourselves several questions. Were there gaps in our security coverage on September 11? Do we have terrorist groups in Canada? Have we been, at the very least, ambivalent in dealing with undesirables who would abuse the hospitality that Canada offers? Yes, to all of the above."[27]

All governments undoubtedly took security too much for granted before September 11. The hard lesson that the Committee draws is that, in addition to increasing cross-border cooperation, significant domestic remedies were, and continue to be, required in a variety of areas.

Defence of the homeland has a long history in the United States; but for the country to reorient itself to this task after decades of "forward defense" will be a long and complicated task. In Washington, the Committee met with Richard Falkenrath, Director of Policy and Plans in the Office of Homeland Security. As Mr. Falkenrath later explained, the key elements achieved in this area over the past year were: the creation of an executive Office of Homeland Security, headed by Governor Tom Ridge, in October 2001; a request that the amount spent on homeland security be almost doubled in fiscal

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[25] *Evidence*, Meeting No. 76, May 6, 2002.

[26] Stephen Clarkson, "Uncle Sam and Us One Year Later: The Geopolitical Consequences for Canada of September 11th," in "9/11: Canada and the World, One Year Later," *Canadian Issues*, Association for Canadian Studies, September 2002.

[27] Reid Morden, "Canada and the U.S. Must Protect Each Other," *The Ottawa Citizen*, September 16, 2002.

2003; the release of a *National Strategy for Homeland Security*; and the proposal to reorganize the federal government to create a massive Department of Homeland Security.[28] The legislation to establish this department was signed by President Bush on November 25, 2002.

As noted by Stephen Clarkson, the structure of Canadian government probably allowed Canada to react more quickly than the United States in this area. In October 2001, the Canadian government created an ad hoc Cabinet Committee on Public Security and Anti-Terrorism, chaired by then-Foreign Affairs Minister John Manley. (Cabinet committees on Security and Intelligence and on Foreign Affairs and Defence had been abolished years before.) The Government also passed sweeping anti-terrorism legislation and increased security-related spending, committing $7.7 billion over five years to anti-terrorism and border security measures in its December 2001 Budget.[29] Although observers such as Dr. Thomas Axworthy have suggested more long-term changes, such as making the ad hoc Committee on Public Security and Anti-Terrorism permanent and creating a Department of Homeland Security, the Canadian government has not undertaken permanent reorganizations to emphasize security.[30] Nevertheless, the significant American moves in this area will have important implications for Canada that must be monitored.

Much more remains to be done, however. As Joseph Nye of Harvard University, a former Chairman of the National Intelligence Council of the United States and Assistant Secretary of Defense, told the Committee in May 2002:

> Technology is putting into the hands of deviant groups and individuals destructive power which was once reserved solely to governments. So if in the twentieth century you had a person who wanted to kill many people — a Hitler, a Stalin, a Mao — he needed the power of a government to do it. Today it's not farfetched to imagine terrorists getting access to weapons of mass destruction and being able to do that themselves.... This is a totally new dimension of world politics.[31]

In its June 2002 report on priorities for the G8 Summit, the Committee reflected the views it had heard in hearings across the country concerning the fight against terrorism. Particular emphasis was placed on the need to pursue this fight within a multilateral framework that respected civil liberties and on the need for Canada and other states to increase cooperation at a number of levels to strengthen their capacity to fight terrorism.[32]

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[28] U.S. Department of State, "Homeland Security," Foreign Press Center Briefing, Washington, September 5, 2002.

[29] According to Clarkson, this was proportionately more than the United States spent on these issues. ("Uncle Sam and Us One Year Later: The Geopolitical Consequences for Canada of September 11,") *loc. cit.*

[30] For a recent set of ideas on the development of a national security policy for Canada, see W.D. Macnamara and Ann Fitz-Gerald, *A National Security Policy Framework for Canada*, Institute for Research on Public Policy, Montreal, October 2002. Available at: www.irpp.org.

[31] *Evidence*, Meeting No. 74, May 2, 2002.

In addition to protecting Canada from terrorist attacks, it is also important to guard against attacks on critical energy, telephone and other infrastructure shared by Canada and the United States — the two governments have agreed to detailed binational workplans in the area — and to recognize the possibility of attacks on American businesses and interests in Canada.

From a "Security Perimeter" to Building a "Smart Border"

The challenge of meeting Canadian needs and U.S. imperatives at the border is symptomatic of a larger public policy debate. The focus is the balance between sovereignty, economic security, and national security. This may not be a debate Canadians are ready for, but it has been forced upon us by September 11.

Andrew Wynn-Williams,
British Columbia Chamber of Commerce,
Evidence, Meeting No. 76, May 6, 2002.

... although the security perimeter already exists — I do believe that the groundwork has already been laid — the process is not yet complete. We should expect new initiatives in this area in the months and years to come.

Stéphane Roussel, York University
Evidence, Meeting No. 77, May 7, 2002.

The past several years saw debate about the role of borders in a period of increasing globalization, but the September 11 attacks reaffirmed their importance. As Haynal noted in early 2002, however: "The Canada/U.S. border today is a jumble of contradictions. The publics in our two societies retain apparently conflicting sentiments about it. They expect it to pose no impediment to their movements, but they also treat it as an essential attribute of sovereignty, necessary for the protection of national security and the integrity of national institutions."[33]

In essence, the volume of trade and personal interconnections, particularly between countries such as Canada and the United States, is such that security cooperation must begin before the borders are reached, or it will be too late. As Reg Whitaker explained, "in a world in which there is instant communication and very fast transportation movements, you should deal with the problem before it arrives at the border." He added:

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[32] Although outside the Committee's mandate, in one of the many areas that could be addressed, Richard Chenoweth of Securitas Canada pointed out in Toronto that the thousands of private security providers in Canada are regulated under different provincial regimes, and that little interest has been shown in coordinating these standards since September 11 (*Evidence*, Meeting No. 79, May 8, 2002).

[33] George Haynal, 2002, p. 9.

> I don't think that threatens Canadian sovereignty. I don't think, for example, that pre-clearance of goods that originate in Canadian factories is in any way a diminution of Canadian sovereignty. Those goods have no right to enter the United States. They will be checked either at the border or at the point of origin. It simply makes more sense to do it at the point of origin. In fact, Canada itself has been involved in perimeter security in a broader sense: for example, the interdiction of illegal refugee movements at the point of origin using intelligence resources. I think as long as those elements are done on a functional basis, they can work for both countries.[34]

While the United States did move some National Guard troops to its northern border following the September 11 attacks, former Immigration and Naturalization Service Commissioner Doris Meissner told the Committee in Washington that early thoughts about fortifying the border had dissipated quickly (at least partly as a result of domestic and Canadian lobbying).

Public discussion quickly turned to the idea of developing a "security perimeter" for Canada and the United States. Clear definitions were never given, but according to Stéphane Roussel the concept implies:

> … first of all, closer cooperation between the two states. Secondly, it means strengthening already existing measures. Thirdly, the concept involves the systematic use of new technology to enhance border control and speed up the border crossing process. Fourthly, and this is the most important point, it means harmonizing the policies of both governments in areas that include, in particular, immigration, border control, intelligence, defence and security, and, in particular, law enforcement.[35]

Some witnesses compared the idea of a perimeter approach to bilateral security with developments in the European Union under the Schengen agreement that has largely abolished internal border controls among most, though not all, of the EU's member states. For some, the creation of an effective external perimeter would preclude the need for border controls between Canada and the United States, with important benefits for trade and commerce. While Laura Macdonald of Carleton University admitted that the "Europeanization" of the North American border regime would be preferable to the "Mexicanization" of the Canada-U.S. border,[36] Reg Whitaker added: "I am not at all impressed with the notion of this as a new formalized arrangement like the fortress

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[34] *Evidence*, Meeting No. 76, May 6, 2002.

[35] *Evidence*, Meeting No. 77, May 7, 2002.

[36] *Evidence*, Meeting No. 88, June 6, 2002. For a useful discussion of some of the lessons that might be learned from the contrasting European and Mexican experiences with border management, see several recent reports from the executive study tours undertaken by the Ottawa-based Public Policy Forum: *Disappearing Borders and Economic Integration: Learning from the European Union*, Report of the November 2-9, 2001 tour; and *The New Dynamics of North America: U.S.-Mexico Relations and the Border Economy*, Report of the May 10-17, 2002 tour, both available at: www.ppforum.ca.

Europe system. I think that would sink Canada into a position in which it had little to say."[37] Andrew Cooper argued:

> If we had a healthy debate about the EU Schengen model, this would have lots of salience for Canada. But I don't get a sense that, in the United States, we are having a healthy debate about Schengen or EU models. What we get is a very narrow orientation going back to Section 110, going back to ITAR, and going back to all sorts of other issues that focus on self-help rather than complex interdependence. Therefore, I think the U.S. will look at perimeter not so much in a holistic fashion, but more as a form of forward defence. From this perspective, there may be benefits for Canada, certainly at airports and ports, but we can't exaggerate the benefits in terms of allowing open access at the border.[38]

The Canadian government has never favoured phasing out controls along the Canada-U.S. border. For one thing, as our Subcommittee on International Trade, Trade Disputes and Investment heard last fall, the entry of guns and drugs into this country from the United States remains a major concern. Even after September 11, 2001, the Government remained distinctly cool to the "perimeter" concept that was then being promoted by many, particularly in the business community. The Hon. John Manley, then-foreign minister, told the Committee a few weeks after the terrorist attacks that "'perimeter' is a short form for something, but I don't quite know what."[39] Given the obvious need to increase cooperation, however, the real question was whether this would indeed require the "harmonization" of a wide range of policies. As Professor Charles Doran of Johns Hopkins University in Maryland pointed out to the Committee last fall, the basic need was actually for equally *effective* policies rather than identical ones. Instead of a "security perimeter," the goal quickly became the establishment of what U.S. Ambassador Paul Cellucci and others called a "zone of confidence." According to Whitaker: "The concept of zones of confidence, which has begun to replace perimeter security, is a catch-phrase that better captures, I think, the essence of realistic security cooperation."[40] The distinction may seem as much symbolic as real, yet its importance lies in the following: Canada *can* maintain policies different from those of the United States in key areas, as long as Canada and the United States can agree to a mutual recognition of each other's policies on the basis of mutually assured effectiveness.

The years of inconclusive discussion on border issues paid off handsomely in the fall of 2001, when political urgency allowed Canadian officials to quickly develop a package of proposals. These were presented to the United States and largely formed the basis of the "Smart Border Declaration" and related 30-point "Action Plan" agreed to in December 2001. The key elements of the Smart Border accord were: (1) the secure flow of people; (2) the secure flow of goods; (3) secure infrastructure; and (4) coordination and information sharing.[41] Mexican legislators expressed considerable interest in this initiative during the Committee's March 2002 meetings in Mexico City; indeed, shortly thereafter, the United States and Mexico adopted a simpler agreement based on the "smart border" model.

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[37] *Evidence*, Meeting No. 76, May 6, 2002.

[38] *Evidence*, Meeting No. 45, November 27, 2001.

[39] *Evidence*, Meeting No. 30, October 4, 2001.

[40] *Evidence*, Meeting No. 76, May 6, 2002.

As Deputy Prime Minister Manley explained to a parliamentary committee in April 2002: "The guiding principle of the Smart Borders Declaration is that public and economic security are mutually reinforcing. Our security is enhanced when we adopt a risk-management approach that expedites the flow of low-risk goods and people, allowing us to concentrate our resources on higher-risk flows."[42] Minister Manley and Homeland Security Advisor Ridge announced "tremendous progress" in implementing the Smart Border Action Plan in June 2002, and issued a one-year status report on December 6, 2002.[43] At their meeting in Detroit in September 2002, Prime Minister Chrétien and President Bush approved of progress so far, encouraged officials to go beyond the original 30-point Action Plan, and said that the private sector would be brought into these discussions in a more formal way. They also witnessed demonstrations of key programs designed to expedite the shipment of commercial goods (Free and Secure Trade — FAST) and the crossing of known travellers (NEXUS). The Committee addresses these trade-related aspects of border security and facilitation in detail in the next chapter.

Canadians seem to have accepted these border security measures as a necessary part of both increasing our security against terrorism and protecting our economic security by ensuring access to the United States. However, a number of witnesses counselled caution. As Laura Macdonald argued: "Proponents hope to achieve what still seem to me to be mutually incompatible goals, to make the border disappear for the movement of what seem to be desirable goods, capital and people, and to reinforce controls over the movement of undesirable goods, capital and people." She added that "some of these measures are highly controversial. There are widespread concerns that they entail the gradual harmonization or convergence of a wide range of domestic policies with U.S. policies, and there are concerns about their implications for sovereignty."[44]

Some items in the Action Plan were obviously more difficult to negotiate than others. These were, notably, the requirement for Advanced Passenger Information data on all passengers landing at Canadian airports; the development of a system for harmonized commercial processing; and the negotiation of a "Safe Third Country" agreement.

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[41] Government of Canada, "Progress Report — Security and Opportunity at the U.S.-Canada Border," June 28, 2002, p. 1.

[42] "Notes for a Statement by the Honourable John Manley, Deputy Prime Minister of Canada and Minister of Infrastructure and Crown Corporations, to the House of Commons Subcommittee on National Security," Ottawa, April 10, 2002, p. 5.

[43] See "Governor Ridge and Deputy Prime Minister Manley Issue One-Year Status Report on the Smart Border Action Plan," Government of Canada *News Release*, December 6, 2002, as well as the related *Smart Border Action Plan Status Report*.

[44] *Evidence*, Meeting No. 88, June 6, 2002.

The last-mentioned agreement was designed to prevent "asylum shopping" by allowing immigrants to apply for refugee status in either Canada or the United States, but not both. According to the Minister of Citizenship and Immigration: "There has been widespread acceptance that some measure of control was necessary to limit abuse of Canada's refugee determination system, and this Agreement represents an effective and humanitarian means to accomplish this."[45] However, while accepting the need to increase cooperation against terrorists, even some business representatives warned that it was necessary to understand the implications of cooperation across the board. In Vancouver, for example, the Committee heard from American Greg Boos, Vice-President of the Pacific Corridor Enterprise Council — an organization described to us as "sort of like a cross-border chamber of commerce" — who also chairs the American Immigration Lawyers Association border watch group. He reminded the Committee that Canada and the United States had taken a different perspective on refugees from Central America in the 1980s and 1990s, when the region was experiencing civil war and the United States government "was supporting some of the factions down there." With that as background, he continued:

> One of the things I don't like about the 30-point plan, and one of the things that American immigration attorneys and other people that are concerned with human life in the United States don't like about the 30-point plan, is the 30-point plan calls for harmonizing U.S. and Canadian refugee policy. More specifically, the 30-point plan calls for saying that if a person were in the United States and didn't apply for refugee status, that person could not come to Canada and apply for refugee status....
>
> I think that what we need to do with the 30-point plan is we need to say that in the asylum and refugee forum there needs to be a common screening for terrorism between the United States and Canada, but I don't believe we should say that the two systems really are equal, so that if one person is in the United States he or she can't apply in Canada or vice versa. You can never tell; it might be the United States that is wearing a white hat eventually in a particular case with a particular people and Canada wearing the black hat.[46]

In September 2002, the Minister of Citizenship and Immigration announced that negotiators had completed a Safe Third Country Agreement, and final agreement with the United States came in early December 2002. Concerns have been raised that an agreement on safe third countries could mean the harmonization of certain immigration policies, convergence in the assessment of the situation in foreign countries, and thus convergence of foreign policy to some extent. Indeed it could even have an impact on Canada's ability to meet its commitments under the Geneva Convention Relating to the Status of Refugees. Accordingly, the Committee considers that the Government should proceed with caution and be sensitive to the implications of such a project for the independence of Canada's foreign policy, and supports calls for ongoing parliamentary and other monitoring of the implementation of this agreement.

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[45] "Minister Coderre Seeks Government Approval of Safe Third Country Agreement," Citizenship and Immigration Canada, *News Release* (2002-26), Ottawa, September 10, 2002.

[46] *Evidence*, Meeting No. 76, May 6, 2002.

While Minister Manley and Governor Ridge will undoubtedly continue to issue progress reports on current developments, the Committee notes that there has been no public commitment to produce the sort of comprehensive report card on the Smart Border process that was issued at the September 2002 meeting of Prime Minister Chrétien and President Bush. The Committee believes such reports are vital in order to monitor the implications of this process. Accordingly, in order to allow a more comprehensive review of these issues, the Committee undertakes to convene a hearing in the near future in order to review cumulative developments over the first year since signing of the Smart Border Declaration on December 12, 2001. We will also invite the participation of members from other parliamentary committees that have reported on border-related issues since September 2001.

Recommendation 9

The Government should produce an annual report to Parliament reviewing in detail the status of the "Smart Borders" process. The ministers responsible for the implementation of border security measures should also appear before the relevant committees of both houses of Parliament on the substance of that report.

Law Enforcement and Intelligence Cooperation

Intelligence and law enforcement are important elements of security cooperation. Following the September 11 attacks there was broad agreement on the need for increased intelligence cooperation. As experts at the Washington-based Center for Strategic and International Studies, which the Committee visited in March 2002, stated in a major study released in the fall of 2001: "With good intelligence, anything is possible; without it, nothing is possible."[47]

Canada and the United States have enjoyed excellent cooperation in these areas for decades. Since 1988, officials from the two governments have met annually in a Bilateral Consultative Group on Counter-Terrorism Cooperation. In addition to agreements on research and development in counter-terrorism technologies and joint exercises, discussions in this group led to the creation of a "Tip-Off" agreement, under which the countries exchanged lists of possible terrorists for use in visa and border control purposes. The Smart Border action plan also committed the two countries to significantly increase cooperation in this area.

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[47] Kurt M. Campbell and Michele A. Flournoy, *To Prevail: An American Strategy for the Campaign Against Terrorism*, Washington, Center for Strategic and International Studies, November 2001, p. 78. For a good overview of Canadian developments in this area since last September, see Reg Whitaker's "9/11 and The Canadian Security and Intelligence Community," a paper presented to a September 2002 conference of the Canadian Association for Security and Intelligence Studies (CASIS). Available at www.sfu.ca/igs/CASIS/Whitaker.pdf.

Following the September 11 attacks, the Government of Canada significantly increased the resources devoted to its intelligence community — which had seen major cuts as the government struggled to reduce the federal deficit — and also gave the Communications Security Establishment (CSE) new powers under anti-terrorism legislation. Bilateral cooperation with the United States was also increased, including through the creation of six new Integrated Border Enforcement Teams (IBETS). These teams include police, immigration, and customs officials from the two countries who work together on a daily basis with local, state, and provincial agencies. This brought the total number of IBETS created to date to 10, with 19 planned by the end of this fiscal year.[48] Indeed, U.S. Ambassador Paul Cellucci commented to a September 2002 conference of security and defence experts held in Ottawa that cooperation between U.S. and Canadian intelligence and law enforcement was always "good," but is now "extraordinary."

An increase in Canada's own capabilities and bilateral cooperation in this area serve both countries well. As Denis Stairs has recently noted, "... we need first-class intelligence. Even more, we need first-class intelligence analysts." He added that "... cultivating ... our own analytical capabilities can be as useful to our neighbours as to ourselves. This is partly because there are things that researchers from a small power can do that researchers from a hegemonic power cannot.... There are perspectives on 'reality' that flourish in smaller powers but are quick to die in the more muscular world of the great powers."[49]

In its fall 2001 preliminary report, the Committee agreed with recommendations from such experts as Professor Wesley Wark of the University of Toronto, and Professors Martin Rudner and Andrew Cohen of Carleton University, on the need to increase funding for the Canadian intelligence community. Some witnesses also suggested the creation of a Canadian foreign intelligence agency, although Deputy Prime Minister Manley told a parliamentary committee in April 2002 that the Government had not yet decided whether this was necessary.[50]

The increase of resources for the intelligence community in the December 2001 budget was welcome. In light of the new challenges, however, Professor Stuart Farson of Simon Fraser University (who was involved in a parliamentary review of the Canadian Security Intelligence Service Act in 1989-90) told the Committee that the intelligence community would still benefit from both an independent review and increased parliamentary oversight; some degree of oversight is currently carried out by the Subcommittee on National Security of the House of Commons Standing Committee on Justice and Human Rights. In Professor Farson's words:

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[48] The Canadian government has also created four Integrated National Security Enforcement Teams in major urban centres to better integrate intelligence and enforcement perspectives on national security issues at an early stage.

[49] Denis Stairs, "9/11 'Terrorism,' 'Root Causes' and All That: Policy Implications of the Socio-Cultural Argument," *Policy Options*, September 2002, p. 10.

[50] *Evidence*, Subcommittee on National Security of the House of Commons Standing Committee on Justice and Human Rights, Meeting No. 3, April 10, 2002.

> On the question of how we get action to improve the security intelligence community, I think the key issue is to have some fresh air brought to the situation. The way I think that can happen is by a comprehensive review of the sector….
>
> Related to this, of course, is that Parliament has to be informed and needs to be engaged in the process of review. It must hear and have access to the product of the review. I also believe that Parliament needs to have a permanent security and intelligence committee — hopefully that can operate in a non-partisan manner.[51]

The Committee agrees. As the Government itself stated in its October 2002 response to a February 2002 report by the Senate Standing Committee on National Security and Defence: "The Government recognizes that the continued effectiveness of Canada's strong review and accountability framework will be assured by increased Parliamentary and public knowledge. This enhanced transparency and public discussion is in the interest of all Canadians."[52]

Recommendation 10

While acknowledging potential legal restrictions, the Committee recommends that the House of Commons establish a Standing Committee on Security and Intelligence, with appropriate secure premises, dedicated and cleared staff and other requirements. In addition, the ad hoc Cabinet Committee on Public Security and Anti-Terrorism should be replaced by a permanent Cabinet Committee on National Security. Further, the Government should institute a review of Canada's intelligence services and report the findings to Parliament. Finally, the Government should also facilitate increased parliamentary oversight in this area by the new Standing Committee on Security and Intelligence recommended above.

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[51] *Evidence*, Meeting No. 76, May 6, 2002.

[52] Government of Canada, "Canadian Security and Military Preparedness," The Government's Response to the Report of the Standing Senate Committee on National Security and Defence, October 2002, p. 10. This response contains a review of all security and defence-related actions taken by the government over the past year.

3.4 The Future of Canada-United States Defence Cooperation

… the people of the United States will not stand idly by if domination of Canadian soil is threatened….

President Franklin D. Roosevelt,
Kingston, Ontario, August 1938.

... we too have obligations as a good friendly neighbour … and one of these is to see that, at our own insistence, our country is made as immune from attack or possible invasion as we can reasonably be expected to make it….

Should the occasion ever arise, enemy forces should not be able to pursue their way, either by land, sea or air, to the United States, across Canadian territory.

Prime Minister William Lyon Mackenzie King,
Woodbridge, Ontario, August 1938.[53]

NORAD and the Defence of North America

… even if the Government decided to reduce significantly the level of defence cooperation with the United States, Canada would still be obliged to rely on the U.S. for help in protecting its territory and approaches — and this assistance would then come on strictly American terms, unmitigated by the influence Canada enjoys as a result of its defence partnership with the United States and with our other NATO allies.

Government of Canada,1994 Defence White Paper.

Given the facts of geography and history, Canadian governments have long decided that this country could best be defended in cooperation with allies, the first and most important of which is the United States. As Professor Jim Fergusson of the University of Manitoba argued, “it is important that we understand and recognize fully that any threat through terrorists acts or what have you to the continental United States, to American cities, to American commerce, or to the American economy is a fundamental threat to Canadian national interests and Canadian national security.”[54]

The defence relationship between the two countries has been based for over six decades on the reciprocal defence obligations cited above. These were freely entered into by governments that, especially during the Cold War, almost always shared common perceptions of military threats against North America. However, the Canadian pledge also constituted recognition that if Canada did not address fundamental U.S. security concerns, they would be addressed by the United States itself — a notion that has been called “defence against help.” As Professor Rob Huebert noted in Calgary:

> We cannot lose sight of the fact we are bordered to a superpower. Fortunately, this is a superpower that shares many of the same political culture, orientation, interests, and objectives of Canada. That makes it a lot easier than, say, the

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[53] Quoted in Desmond Morton, *A Military History of Canada*, Hurtig Publishers, Edmonton, 1985, p. 176-77.

[54] *Evidence*, Meeting No. 75, May 6, 2002.

> position Poland or Finland have faced, but it is a relationship that has to be monitored.
>
> We will have to be careful how we understand it. We will have to be careful not to overreact, but by the same token, we have to be careful not to under-appreciate where the American concerns are. In other words, we have a balancing act that has to be monitored and examined. We have to remain constantly vigilant.[55]

Over the past half century, Canada and the United States have developed a degree of military cooperation unparalleled in the world. There are currently over 80 treaty-level defence agreements and more than 250 memoranda of understanding between them, and about 145 bilateral fora in which defence matters are discussed. The most important of these fora is the Permanent Joint Board on Defence (PJBD), established through the 1940 Ogdensburg Agreement to "consider in the broad sense the defense of the northern half of the western hemisphere."[56]

The two countries' armed forces also cooperate closely in all military environments. This has allowed the Canadian military to maintain a high level of technical "interoperability" with American forces, an important goal of military planners in a country that expects to fight alongside allies and has also seen significant cuts to its military budget. Canadian naval vessels routinely integrate with U.S. carrier battle groups, and did so in the fall of 2001. Canadian infantry forces fought closely with, and under the control — but not the command — of U.S. forces in Afghanistan.

The keystone and symbol of bilateral military cooperation remains the North American Aerospace Defence Command (NORAD), a unique binational institution through which the two countries have cooperated in the aerospace surveillance and defence of the continent since the late 1950s. In effect, at the time of its creation NORAD was the ultimate "homeland defence" mechanism for the two countries. Indeed, according to a recent American report: "With its integrated early-warning and command-and-control capabilities — and its joint command, with the tradition of a U.S. commander and a Canadian deputy commander — NORAD is arguably the most integrated binational defense organization in the world. Inarguably, it is the foundation stone of the U.S.-Canadian mutual security relationship."[57] As noted above, John Manley, testifying before the Committee as foreign minister, had rejected the idea of an undefined North American security "perimeter". He later added, however, that "If perimeter means things like NORAD, I'm a lot more comfortable with it, because we understand what we're talking about."[58]

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[55] *Evidence*, Meeting No. 80, May 8, 2002.

[56] Desmond Morton, 1985, p. 182.

[57] Stephen Cundari et. al., *The U.S.-Canada Strategic Partnership in the War on Terrorism*, Center for the Study of the Presidency, August 2002, p. 5-6.

[58] *Evidence*, Meeting No. 40, November 6, 2001.

Both countries prefer to continue cooperating in the aerospace defence of North America. However, a combination of technological changes, the end of the Cold War, and declining Canadian military capabilities has meant that the American *need* for Canadian cooperation is probably less now than it was in the late 1950s. In light of continuing differences over the issue of missile defences, U.S. unhappiness with the level of Canadian defence spending, and an American decision after September 11 to reorganize its military forces in North America to better support homeland security, some Canadians have argued that we are at a critical juncture in our bilateral defence relationship. As Professor Fergusson put it: "In terms of defence and security, the only real issue that stood out there, ironically, was about the future of cooperation between Canada and the United States centred on NORAD, and the future of NORAD.... In a sense, where the economic element was driving toward integration, on the defence and security side the issue was in fact that of a degree of disintegration, or the fear of disintegration."[59]

The United States "Northern Command" (NORTHCOM)

It will take a great deal of time before the United States gets its security house fully in order, just as it will take Canada time to sort out some of the aspects within the cooperation between defence and the other, non-defence departments and agencies in the federal and provincial governments. These processes have to work both within and between both countries as we try to find out how far cooperation will go and how far we need to move towards alternative models to the existing one, which has simply been centred on NORAD.

Jim Fergusson, University of Manitoba,
Evidence, Meeting No. 75, May 6, 2002.

... in this specific area you must ensure that you just do what is required. You do not give more than you need to give. If there are real threats to Canada that we feel we cannot cope with on our own and we need to deal with them on a bilateral basis, then we must negotiate arrangement[s] that will protect Canadian sovereignty and enhance it by ensuring that we have a cooperative relationship with the United States, or whoever the other partner would be, that affords us that enhanced security but does not diminish our sovereignty. That is in the negotiations. However, it can be very difficult ... to ensure that we hold the line.

Jill Sinclair, Acting ADM, Global and Security Policy, DFAIT.[60]

While not carried out by military forces, the September 11 attacks had important military consequences, including NATO's invocation for the first time in its history of its Article 5 collective defence provision. The attacks also led the United States to rethink its defence structures and relationships, including those with Canada. In November 2001, following talks in Washington, the Minister of National Defence told reporters that Canada and the United States were reviewing all aspects of their defence cooperation. In his words: "We'll be looking at areas of cooperation ... in view of the changed security environment as of September 11." He added: "I'm not going to speculate on the outcome of this other than to say that we're out to improve the relationship and the safety and security of the people of our two countries and our continent."[61] The following months saw the beginning of an important debate over the future of bilateral defence cooperation, centred on NORAD.

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[59] *Evidence*, Meeting No. 75, May 6, 2002.

[60] *Evidence*, Senate Standing Committee on National Security and Defence, Issue No. 19, August 14, 2002, morning session.

Within months of the terrorist attacks, the U.S. military let it be known that it proposed for the first time to restructure existing U.S. commands to create one known as Northern Command (NORTHCOM), with responsibility for all U.S. forces in North America, as well as geographic responsibility for Canada and Mexico. When the plans for Northern Command were finally announced in April 2002, it became clear that this reorganization was designed primarily to allow U.S. military forces to better assist civilian first responders in the event of a natural disaster or terrorist incident involving weapons of mass destruction (WMD). When asked in September 2002 how NORTHCOM differed from other U.S. unified commands around the world, its new commander General Ralph "Ed" Eberhart (who is also the Commander of NORAD) responded that the main difference was that, since its responsibility is the U.S. homeland, it would have to provide unified support for civil authorities — including the President and the Secretary of Defense. He added that this would require improving relations with local law enforcement agencies to detect and deter terrorist acts and to train and work with emergency responders.[62]

Given the lack of detail concerning the implications of Northern Command for Canada-U.S. defence relations, observers reacted differently. Former foreign minister Lloyd Axworthy warned the Committee in Vancouver of "increasing pressure for military integration." Given the simultaneous pressures for economic integration, Mr. Axworthy told the Committee that

> ... the interaction between those two ... creates, I think, a series of very major questions Canadians have to answer about the degree to which we will maintain our ability to manoeuvre, our freedom of choice, and our ability to make judgements based upon what we calculate to be our own interests and our own values. It is important not to treat these things in isolation but to see this as a cascading effect, one that really has to be examined in all its implications.[63]

A provocative high-profile study entitled *Canadian Armed Forces Under U.S. Command*, commissioned by Mr. Axworthy's Liu Centre for the Study of Global Issues at the University of British Colombia and written by Canadian law professor Michael Byers of Duke University, highlighted a wide variety of legal and other issues that *could* arise if Canada agreed to closer "integration" with U.S. military forces without thinking through the implications. As Professor Byers told the Committee in presenting the study's main conclusions and recommendations: "There are very many questions and not all that many answers, but that in itself is reflective of the uncertainty of the situation we're working with." He added: "The U.S. isn't malicious, but things could happen because we both haven't anticipated them."[64]

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[61] Tim Naumetz, "Canada, U.S. May Expand Joint Defence,"*The Ottawa Citizen*, November 22, 2001.

[62] Master Sergeant Bob Haskell, "NORTHCOM Chief: Guard Key to Homeland Defense," *AirLINK News*, September 10, 2002.

[63] *Evidence*, Meeting No. 76, May 6, 2002.

Jim Fergusson dismissed as "hysteria" arguments that the United States was "dictating to" Canada in this area, and fears about the implications of Northern Command.[65] As well, Dr. Granatstein dismissed the Axworthy/Byers arguments as a misunderstanding of Northern Command, noting that it is an internal U.S. structure. However, he also disagreed with their broader arguments about Canadian sovereignty. As he put it:

> Very simply, Mr. Axworthy's concerns are largely wrong in fact. They are certainly not in the interests of Canada and continental defence. By all means, Canadians need to raise their concerns about further integration with the United States military. But in their desire to stay a sovereign nation, they must not forget what is at stake. With almost 90% of our trade going to or passing through the United States, our well-being depends on good relations with our superpower neighbour.[66]

As noted earlier, Dr. Granatstein also argued that Canada effectively had "no choice" but to agree to long-standing U.S. demands in areas such as missile defences and defence spending. On the basis of that controversial assessment, he proposed that

> … it would be good sense for Ottawa to press for the creation of an expanded NORAD arrangement that covers both nations' land and naval forces and preserves Canada's status in the binational NORAD.
>
> Such suggestions run up against the DFAIT concerns about sovereignty and autonomy, and likely the Finance Department's fear that if Canada expands NORAD to cover homeland defence, American pressures for much greater defence spending might be too strong to be ignored. The question, however, must be approached exactly as the national missile defence question. The U.S. is determined to improve its homeland defence and is certain to approach this subject, as it must, from a continental perspective….
>
> Canada thus has the choice to stand back and allow the Americans to plan for the use of Canadian territory or to participate in the decisions.[67]

Although Northern Command is a strictly American initiative, it will have implications for Canada. Moreover, as a group of American experts noted in September 2002:

> Because of its classified nature, the … review process inevitably created valid concerns on the part of Canadian officials. By necessity the Canadians were not

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[64] Ibid.

[65] *Evidence*, Meeting No. 75, May 6, 2002.

[66] *Evidence*, Meeting No. 79, May 8, 2002.

[67] Ibid.

> formally briefed on the proposed blueprint for the new command until January, when it was first approved by President Bush, giving Canadian media months to speculate on the potential impact of the new command on mutual security arrangements. Clearly the creation of such a major command would affect the form and function of NORAD. But how exactly?[68]

In fact, since American forces would now be combined under one command, U.S. officials *did* favour the extension of NORAD functions to include naval and land forces. As these experts outlined the implications:

> U.S. officials would ... like to see NORAD's operational scope — which is now limited to warning against missile attack and detection and defense against air threats such as bombers — expanded to include the maritime, land and civil support domains. That would make NORAD's organizational structure roughly parallel with the new Northern Command, which will likewise include air, land and sea elements, as well as civil support functions.[69]

The Committee notes that during its meetings with senior officials in Washington, Frank Miller of the National Security Council pointed out that, since joint defence is always more effective, the United States would like Canada to cooperate as far as it is prepared to; the United States also wishes to begin discussions with Mexico.

In any event, a Canadian negotiating team, led by officials from the Department of National Defence — which includes the Office of Critical Infrastructure Protection and Emergency Preparedness (OCIPEP) — and including representatives from DFAIT reportedly rejected the case for NORAD taking on land and sea functions. In support of its position, the team pointed out that the need for immediate reaction necessary in the case of aerospace threats did not exist in the other environments. According to testimony before a parliamentary committee in August 2002 and later reports, it instead agreed to the establishment of a small binational planning and monitoring group, to be co-located at NORAD headquarters, which would work on both contingency planning — such as response to natural disasters or WMD terrorism incidents — and ongoing monitoring. Reflecting recent criticism of security along coastlines and at ports, Vice-Chief of Defence Staff Lieutenant-General George Macdonald told a conference in September 2002 that "the maritime aspects of this will be more robustly developed in the shorter term than the land aspects would be."[70]The Minister of National Defence also indicated that negotiations were under way to allow Canadian and American military forces to cross the border quickly when requested by the other country to assist in emergency response. On December 9, 2002, the Canadian government announced that a binational Planning Group, to be headed by a Canadian, would be established for an initial two-year period.

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[68] Cundari et al., *The U.S.-Canada Strategic Partnership in the War on Terrorism*, Center for the Study of the Presidency, 2002, p. 8-9.

[69] Ibid., p. 12.

[70] Robert Fife and Sheldon Alberts, "Canada, U.S. Devise Joint Military Unit," *National Post*, September 17, 2002, p. A1.

Such a planning and monitoring group raises fewer questions than an expanded NORAD arrangement would. Nonetheless, like the broader quest for ever-greater "interoperability", it does raise some. Professor Byers had told the Committee in Vancouver:

> ... you will go back to Ottawa and will probably be told the plan the defence ministry in the United States want [sic] to implement is something called a policy cell, which simply involves sending in 50 or 100 Canadian officers to ... provide close cooperation with the United States.
>
> In my view, without a detailed explanation as to how it would operate, that policy cell raises exactly the same kinds of potential problems as any other form of closer military cooperation. The same questions need to be asked and answered. Regardless of what you call it, the question is, would Canada's policies and would its freedom to act be compromised in a crisis situation? If a policy cell meant that [a] Canadian frigate 400 miles off Sable Island would do something the Government of Canada wasn't consulted on, then it is the same as operational control or command.[71]

Joel Sokolsky, Dean of Arts at the Royal Military College in Kingston, pointed out that contingency agreements raise expectations of immediate response. In his words: "The time to question those arrangements is not when the crisis comes.... Something like this raises expectations in the United States that in the event of an emergency that threatens the United States, Canada would agree that if it couldn't handle it, American troops would be requested to assist."[72]

For this and other reasons, Dalhousie University political scientists Danford Middlemiss and Denis Stairs have recently argued that "continued participation in the kind of interoperability arrangement that NORAD represents entails certain costs, some of which are political and some financial." Canadians have chosen to pay these costs in relation to NORAD. They add, however, that "the political dimensions of military interoperability with the United States may now warrant more attention than they have tended in the past to receive."[73]

The Committee believes that in the current context of increased terrorist threats, Canadians can accept the need for increased contingency planning and monitoring. Yet the need for an expanded NORAD has yet to be proven, and would, at a minimum, require a full debate before the next renewal of the NORAD agreement.

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[71] *Evidence*, Meeting No. 76, May 6, 2002.

[72] Daniel LeBlanc, "Plan Joint Troop Action in Detail, Experts Warn,"*The Globe and Mail*, August 29, 2002.

[73] Danford W. Middlemiss and Denis Stairs, "The Canadian Forces and the Doctrine of Interoperability: The Issues," *Policy Matters*, Volume 3, No. 7, Institute for Research on Public Policy, June 2002, p. 19 and p. 13.

Recommendation 11

The Government should make public all relevant agreements under which Canadian military planners will participate in the newly proposed planning and monitoring group to be co-located at NORAD headquarters. In order to allow for a full public debate over the group's usefulness and broader implications, the Government should also prepare and table a report on the work of this new group before the next renewal of the NORAD agreement.

The Question of Missile Defences

... [it is] very difficult indeed for the Canadian government to reject any major defence proposals which the United States government presents with conviction as essential for the security of North America.[74]

Hon. Brooke Claxton,
Minister of National Defence, 1953.

External's view of the U.S. relationship precluded anything that resembled direct defiance of American wishes that were based on the matter of security. The usual approach was to concede what could not be denied but leave a way open for either reconsidering or diluting those parts of the arrangement that were not thought to be in Canada's own interests.[75]

Arthur Andrew,
Department of External Affairs, 1947-78.

The construction of defences against ballistic missiles has been a complicated and controversial issue for decades, both in the United States and among allies such as Canada. As Dr. George Lindsey, a former senior official at the Department of National Defence, pointed out to the Committee, however, in the current context, missile defence

> ... has several very important implications for Canada in different fields. Defence of North America against intercontinental attack is the main one, but not the only one. ... We also have to be worried about operations overseas, where ballistic missiles are very likely to be used, but they'll be shorter-range, theatre-range types, probably not with nuclear weapons. But Canadian troops are very likely to be involved in these operations. A third element, which is perhaps closer to the deliberations of your committee, is the relations between Canada and the United States. That isn't just over defence or security, but includes the exchange of intelligence and cooperation in pursuing high technology, and it will some day be very important, more than now even, for exploiting space. Finally, there are the effects of national missile defence on the proliferation of weapons and on arms control.[76]

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[74] Quoted in Joel Sokolsky, "The Future of North American Defence Cooperation," *International Journal* 46 (Winter 1990-91).

[75] Arthur Andrew, *The Rise and Fall of a Middle Power: Canadian Diplomacy from King to Mulroney*, Toronto, James Lorimer and Company, 1993, p. 52.

[76] *Evidence*, Meeting No. 88, June 6, 2002.

The controversy surrounding missile defences peaked in the 1980s, when President Ronald Reagan announced a "Strategic Defense Initiative" (SDI) to build a space-based missile defence system. Despite being so technologically difficult that many believed it was unlikely to work in any event, critics pointed out that this "Star Wars" proposal was illegal under the 1972 U.S.-Soviet Anti-Ballistic Missile (ABM) Treaty, which had prohibited extensive missile defences. Moreover, they claimed, the proposal broke a tacit agreement to protect space for peaceful uses and was provocative, therefore likely to ignite another nuclear arms race. The Mulroney government refused the invitation to participate officially in SDI, but allowed Canadian companies to do so.

The Clinton administration rejected the idea of a space-based missile defence system. Nonetheless, given Saddam Hussein's use of Scud missiles in the Gulf War of 1990-91, the United States did continue research on short-range "theatre" systems. The year 1998 saw both the report of a commission chaired by Donald Rumsfeld warning of the "possibility" (rather than the probability) that rogue states *could* acquire ballistic missiles with outside help, and North Korea's surprise testing of a multi-stage missile. As a result, the U.S. Congress passed a law that *required* the deployment of an effective National Missile Defense system "as soon as technologically possible." The Clinton administration hoped to preserve the ABM Treaty by negotiating amendments with Russia to allow it to deploy a limited land-based system, designed to protect against both the "rogue" threat and any accidental launch from Russia or China.

The Clinton administration acknowledged that diplomatic considerations — specifically, the impact on arms control negotiations — would be an important factor in the decisions surrounding missile defences. Beyond the opposition of Russia and China, many U.S. allies disagreed with the "rogue" threat and simply did not believe the benefits of such a system outweighed its diplomatic, financial and other costs.

Canadian support would have helped the U.S. administration on two grounds: politically, since it would be difficult to convince other allies that there was a credible missile threat to North America if the other North American ally did not agree; and perhaps technically, since Canadian agreement would mean the system could be controlled through existing NORAD facilities. The Canadian government remained unenthusiastic, however, and since the U.S. government never officially asked it to participate, Canada was not forced to take a decision.

Russia refused to amend the ABM Treaty, and the Clinton administration eventually deferred the decision on missile defence, citing insufficient progress both technically and diplomatically. The new Bush administration came to power arguing that the major threat to the security of the United States was rogue states armed with weapons of mass destruction and missiles to deliver them.

Paradoxically, both sides in the missile defence debate claimed they had been proven right by September 11. Those opposed to such systems pointed out that if they had been built (at great financial and other costs), they would not have prevented the attacks, which were carried out not by using high-tech missiles launched from rogue states but by hijacking commercial airliners. As Carolyn Bassett of the Canadian Peace Alliance told the Committee in Toronto:

> … we were quite surprised to see in the post-September 11 context a renewed commitment to developing the missile defence program when in fact we know it could not only have done nothing to prevent the attacks that took place on that date, but actually would be virtually useless if a terrorist organization were to even obtain a nuclear device….
>
> The delivery mechanism itself would be outside the capacity of any terrorist organization. You could not develop something like that secretly. It would be known, and it would presumably be dealt with long before it ever got to that stage….
>
> The expense of developing something like that really makes no sense when there are so many more practical purposes to which the money could be used that could have a much more immediate, positive effective on everyone's security, our own security here in North America and everyone's security around the world.[77]

Those in favour of missile defences saw the attacks as evidence that America was vulnerable. While the immediate U.S. priority following the attacks was the fight against terrorism, Stephen Flynn of the Council on Foreign Relations told the Committee in November 2001, in relation to missile defences "This is almost a religious issue in the United States, so it will continue, but I would definitely say a lot of the air has been sucked out of its sails."[78] On the other hand, despite a focus on terrorism, the Bush administration did not abandon the idea of missile defences. President Bush linked them to terrorism in the January 2002 State of the Union address by describing Iraq, Iran and North Korea as "axis of evil" states pursuing the development of weapons of mass destruction and missiles, which they might then give to terrorists. In practical terms, the administration has announced that it will pursue a "layered" system that may involve land, sea or air elements. It has removed the word "national" from the former term National Missile Defense (NMD), in recognition that such defences may be shared with allies, and has eliminated the distinction between research on "strategic" and "theatre" systems. Overall, it has boosted spending on missile defence by about 50%.[79]

As the respected International Institute for Strategic Studies put it in May 2002, under the title "Bin Laden Kills the ABM Treaty":

> The events of 11 September settled the issue. The attacks dramatically increased the American public's sense of vulnerability and completely undercut efforts by Senate Democrats to challenge the administration's desire to withdraw from the ABM Treaty. For the average American, it didn't matter that the attacks came in

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[77] *Evidence*, Meeting No. 79, May 8, 2002.

[78] *Evidence*, Meeting No. 46, November 27, 2001.

[79] Bradley Graham, "Missile Defense Choices Sought," *Washington Post*, September 3, 2002, p. A01.

> the form of civilian airliners rather than ballistic missiles. All defences had to be strengthened against these irrational enemies, who appeared willing to do anything to attack America. As a result, domestic opposition ... was virtually mute. Internationally, Russian President Vladimir Putin's strategic decision to side with Washington in the campaign against global terrorism gave the U.S. more confidence that it could walk away from the ABM Treaty without damaging other aspects of the U.S.-Russian relationship.... This calculation proved correct.[80]

President Putin announced that, while he continued to believe that the U.S. move was a "mistake", it did not threaten the security of the Russian Federation. The combination of the removal of the ABM treaty as a legal obstacle and Russia's acceptance of U.S. plans severely undercut the arguments of missile defence opponents. They continue to start those arguments, however, by pointing to the lack of a real need for a system. They note, for example, that the American intelligence community reported in December 2001 its belief that the United States is more likely to be attacked with weapons of mass destruction by non-missile means, since these "... are less costly, easier to acquire and more reliable and accurate. They can also be used without attribution."[81]

Opponents of the U.S. missile defence plans also point out that, while Russia does not see these programs as a threat to its security, China still does. Although China is not in the same league as the United States and Russia in terms of nuclear arsenals, a Chinese decision to significantly increase its much smaller ballistic missile force of about 20 long-range missiles in order to try to preserve an effective deterrent would probably lead rival India to build more missiles, and therefore Pakistan as well. As Kerry Duncan McCartney of Project Ploughshares Calgary said to the Committee, "in the open literature the analysis of the situation in Asia regarding the Chinese versus the Pakistanis and the Indians is quite generally accepted. We do risk destabilizing the world by moving into a missile defence scheme."[82] In practice, the Chinese government is probably at least as worried about two other points. First, it is concerned about the impact of increased research on theatre missile defences, since these might eventually be provided to Taiwan. Second, it fears that missile defence programs may lead to the U.S. weaponization of space — a situation to which China, a developing space power, objects.

At the broader level, long-standing concerns about the impact of missile defences on the multilateral arms control regime have been partly addressed by the removal of the ABM restriction. More generally, many still fear that the pursuit of a layered missile defence system will eventually involve the weaponization of space, in contravention of international agreements. Ambassador for Disarmament Chris Westdal told the Committee in April 2002 that: "We accord a high priority to the prevention of the weaponization of outer space, as distinct from the militarization, which has already taken place." He went on to offer the following assessment:

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[80] *Strategic Survey 2001/2002*, London, The International Institute for Strategic Studies, 2002, p. 21.

[81] Statement of Robert Walpole, hearing on the "CIA National Intelligence Estimate of Foreign Missile Development and the Ballistic Missile Threat Through 2015," before the Senate Subcommittee on International Security, Proliferation, and Federal Services, March 11, 2002, p. 2.

[82] *Evidence*, Meeting No. 80, May 8, 2002.

> ... I don't think arguments about the sanctuary of the heavens and the sentiment that it would be nice to keep them free from weapons will win the day. Arguments would have to be hard nosed about the security interests that would be served or compromised by such a ban on the weaponization of space and by the implications for enormous and growing economic assets and our enormous and growing dependence on satellites for our civilization and for our global economy.... Our own analysis is that the costs of that kind of weaponization would exceed, by a great margin, the military benefits that might be gained. Those are subjects that need to be explored further, and that's an exploration we're encouraging.[83]

Among witnesses who argued that Canada should support missile defences, few focused on a rogue state threat to either the United States or Canada. In effect, their argument was that, while missile defence may still not be a *good* idea, the benefits of supporting it now outweigh the costs, particularly if these might threaten NORAD and even the broader defence relationship. As Dr. Granatstein put it: "Most Canadian officials downplay the rogue state threat and worry about American unilateralism. If the research failed to produce a useful defensive system, almost no one would weep." However, he continued: "If Canada takes a high moral stand against the NMD defensive system ... the Canadians in NORAD could no longer fully participate in the warning and assessment process. The implications of this are clear: the Americans might prefer to close down NORAD as an integrated command or to give NMD to their Space Command, perhaps even amalgamating it with the U.S. Strategic Command. For all practical purposes, NORAD's gutting would take with it all Canadian influence on continental air defence, and it will almost certainly affect the vast flow of intelligence Canada receives from American sources."

In Granatstein's view: "If Canada accepts NMD, on the other hand, and missile defence goes to NORAD, Canadian influence might actually increase. No one suggests that Canada will acquire go or no-go authority over NMD if NORAD runs the show, but Canada will have the right to consultation, the right to participation, the right to a place at the table when decisions are made." Accordingly, he drew the following conclusion: "As the United States under the Bush administration is all but certain to proceed, Canada must choose between high morality and great practicality. In such circumstances, when morality will only anger the Bush administration and hurt Canadian interests, there is no choice. The time for maximum benefit may have already slipped by; nonetheless, the earlier Canada agrees to support the NMD decision, the better.[84]

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[83] *Evidence*, Meeting No. 72, April 25, 2002.

[84] *Evidence*, Meeting No. 79, May 8, 2002.

From another perspective, Dr. George Lindsey had this advice for the Committee:

> I would try very hard to keep us in NORAD, and that might involve our having a bigger part to play in national missile defence than we would really like. Then, if the Americans urged us to do more, my advice would be, let us work on the short-range missiles and the overhead observation, which we can use to know what's going on in our own country and get some good out of it. Usually, to get good out of something, you have to pay something and give in a little bit, but that isn't quite the same as huffing and puffing and trying to start World War III, which we don't want to do.[85]

Most observers probably agree that the cost/benefit calculations related to missile defences have changed significantly over the past year: while most allies still probably would not give priority to such a system themselves, the downside costs are much less now that the ABM Treaty is no longer a legal barrier and Russia has accepted the U.S. missile defence plans.

In the next chapter, the Committee cautions against the practice of linking unrelated issues. At the same time, Stéphane Roussel advised us, satisfying one aspect of U.S. security concerns in North America may give the Government of Canada more latitude over the long term on others. As he put it:

> ... homeland defence is a concept that will guide American foreign policy in the years to come, and anti-missile defence is an essential component of that policy.
>
> [It is] not going to have as big an impact on Canadians' daily life as, for example, the security perimeter, which is another component of homeland defence.... It would be better, for the Canadian government, to accept some compromises in the area of anti-missile defence to demonstrate goodwill in Washington and to say that the country was prepared to contribute to the defence of North America, even if that called into question certain aspects of arms control policy and even if that generated some discomfort on the international scene. Saying yes to anti-missile defence may give us some flexibility enabling us to negotiate other aspects that may have a much more direct impact on the lives of Canadians. By this I mean the security perimeter, border control, law enforcement. The harmonization of policies is something that will have much more of an effect on the lives of Canadian citizens than anti-missile defence....
>
> If we can negotiate ... I would tend to make a lot more concessions in the area of anti-missile defence in the hope that this would give me more elbow room when discussing other aspects of the security perimeter, thereby ensuring that we would be able to preserve those matters which Canadian citizens care deeply about, such as the health system, immigration, the Firearms Act, and potable water. All of these sectors must be preserved, and we may be able to gain some flexibility by doing this.[86]

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[85] *Evidence*, Meeting No. 88, June 6, 2002.

[86] *Evidence*, Meeting No. 77, May 7, 2002.

Unfortunately, as former senior American defence official and now Johns Hopkins University Professor Eliot Cohen recently summarized the lessons of decades of controversy over missile defences:

> First, the impulse to defend one's country against attack from long-range missiles is durable and, in the final analysis, compelling. Second, the technological capability to do so remains unproven.... People tend to be obsessed with either the logic of missile defense or its technology, but they never take both into account.... That dilemma is why ... a dialogue of the deaf on this subject will continue.[87]

The question of how best to address the threat of missiles is a challenging one, and Committee members have struggled to achieve a degree of consensus on it. Missiles do present a real danger, and in the first instance, multilateral diplomatic means to address them must be redoubled. As Ernie Regehr of Project Ploughshares has argued: "The missile threat is global. The threat to use them to deliver weapons of mass destruction is wrong — make that evil — no matter who does the threatening. Protection against it requires global standards and action...."[88]

At the same time, while any benefits of missile defences will become clear only in several years, recent developments have significantly reduced the diplomatic and other costs associated with the pursuit of such systems. The Government of Canada would certainly not give priority to the pursuit of such a system on its own, but its close alliance with the United States requires it to take U.S. perceptions of vulnerability seriously.

Recommendation 12

The Government should not make a decision about missile defence systems being developed by the United States, as the technology has not been proven and details of deployment are not known. However, the Government should continue to monitor development of this program with the Government of the United States and continue to oppose the weaponization of outer space.

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[87] Eliot A. Cohen, "Recent Books on International Relations," *Foreign Affairs*, Volume 81, No. 3, May/June 2002, p. 158.

[88] Ernie Regehr, "Getting Serious About the Ballistic Missile Threat," *Ploughshares Monitor*, Spring 2002.

The Question of Defence Spending

There is a tripping point beyond which any effort to right yourself requires a really Herculean effort, and I think the Canadian military is already below it.... You get into a vicious cycle where the amounts of money needed grow ever bigger until politicians throw up their hands and say we could never justify that level of spending, so let's give up and leave defense of North America to the Americans. That's dangerous thinking, however, because Canada has long recognized that in order to stay in the game and maintain its special relationship with the United States, they had to ante up a certain minimum amount of military capability. Canada has now fallen below that minimum.[89]

Dwight Mason, U.S. Co-Chair,
Permanent Joint Board on Defence, 1994-2001.

While missile defence represents a specific issue, a more general concern that came up in a number of the Committee's hearings related to the issue of defence spending. On one level, U.S. arguments that its allies need to spend more on their shared defence are decades old, although the earlier term "burden sharing" has been replaced by "responsibility sharing".

In recent years, and particularly since the huge increase in U.S. defence spending following the September 11 attacks, the United States has continued to argue that all its allies need to increase their defence spending. Within this general context, critics point out that Canada's defence spending is among the lowest in NATO. In addition, they point to the fact that even the Chief of the Defence Staff has argued that the status quo "is not sustainable".

Within the context of Canada-U.S relations, U.S. Ambassador Paul Cellucci has repeatedly ("respectfully") called on the Canadian government to increase its defence spending. As he has pointed out more than once: "The one specific instruction Secretary [of State Colin] Powell gave me before I came to Canada was that — 'You have to get the Canadians to spend more money on defence.'"[90] A number of witnesses argued that Canada must finally increase its defence spending if it wishes to be taken seriously by the United States in terms of defence and security. For example, Jack Granatstein argued: "We've saved the money we should have spent on defence and put it into other things, and the Americans have defended us. What kind of sovereignty do we have if that's the situation in which we live." He continued:

> I would like to see us move as rapidly as we can toward the NATO average spending on defence — which is exactly double ours in percent of GNP terms — from 1.1% to 2.2% of GNP. If we do that, raise the number in our forces to 80,000 to 85,000, put an extra 10,000 people in the army, an extra 5,000 to 8,000 in the navy, and the remaining 10,000 or so in the air force, and get the new equipment we need, then we will have the capacity to play a role in the world. It will

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[89] "The U.S.-Canada Strategic Partnership in the War on Terrorism," Washington, Center for the Study of the Presidency, September 2002, p. 17.

[90] Geoffrey Scotton, "Military Spending Gains Ground: U.S. Envoy's Criticism Wins Supporters," *Calgary Herald*, September 26, 2002.

> be a better role than peacekeeping; it will be a role in the defence of North America, and a better role in NATO operations in Bosnia and possibly elsewhere. We can't do those things now without subjecting our men and women in the armed forces to extraordinary strain.
>
> The quality of life of the Canadian Forces has deteriorated dramatically. The numbers cannot be sustained at their present 54,000, which is the real strength of the Canadian Forces. In the next two or three years, we're facing a major departure from the forces of our senior NCOs and our officers because of age requirements.
>
> The reality is we're on the verge of becoming virtually defenceless. And if we do that, then there'll be no question of defending North America; there'll be no question of protecting our sovereignty. We will, very simply, have to rely on the Americans for everything. We cannot stay a sovereign state if that is the case.[91]

Several arguments have been made in response. These include the facts that: the United States argues that *all* NATO allies need to increase their defence spending; in terms of dollars spent, Canada's 2001 defence budget was the sixth largest in NATO; and while the number of Canadian troops participating in UN missions is very low, the numbers participating in important regions such as Bosnia remain high. Moreover, in terms of the key U.S. focus on "homeland security" measures — including intelligence, law enforcement and border security — as we have already noted, the $7.7 billion the Government of Canada committed in the December 2001 budget was proportionally larger than the amount the United States spent on the same items.

Nevertheless, a key theme of both the Committee's interim report last fall and this report is the need for the Government of Canada to provide adequate resources for Canadian foreign policy. The amount of money spent on the Canadian military does not have to be increased in order to address American security concerns in North America. The Committee agrees, however, with the many experts, as well as parliamentary committees, that have reported unanimously on this topic, that spending does have to be increased in order to allow the Canadian Forces to carry out the surveillance of Canadian territory and effectively play their traditional role as a key instrument of Canadian foreign policy. The fact that such an increase would be seen positively by the United States is an added benefit.

Following the elimination of the federal deficit, the Government of Canada rightly focused its first defence spending increases on addressing serious "quality of life" issues facing the men and women of the Canadian Forces. The time has come, however, for the Government to recommit itself in this area. Whether as peacekeepers or peacemakers, effective military forces remain an important element of Canadian foreign policy. The question is not simply *how much* money is spent, of course, but *on what* it is spent and *for what purpose*. As Michael Byers summarized the report commissioned by Mr. Axworthy's Liu Centre for the Study of Global Issues:

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[91] *Evidence*, Meeting No. 79, May 8, 2002.

> … we probably need to spend more on the Canadian military, but we need to spend it on Canadian priorities as the Canadian government deems these priorities to be. I have my own views as to what those priorities should be. They would include logistics and intelligence gathering.
>
> The report is not saying we shouldn't spend money on defence, and it's not saying we should stop cooperating with the Americans. It's saying we should cooperate with the Americans; we need to invest in our defence, but we need to do so on our terms, in favour of our interests, after having thought very carefully about what we're doing.[92]

While the Government has committed itself to reviewing Canada's long-term foreign policy and defence requirements, the Committee believes that the Canadian Forces will need additional resources in order to fulfill their key role in Canadian foreign policy.

Recommendation 13

Taking into consideration the forthcoming reviews of Canada's foreign and defence policy, and recognizing the important contribution of the Canadian Forces in achieving Canada's foreign policy goals, the Government should commit itself to substantially increased and stable multi-year funding for the Department of National Defence.

The Question of Political Oversight

While many of the defence and security issues discussed in this chapter have important technical elements, the responsibility for judging and ultimately approving them rests with the political leadership of the country. As Lloyd Axworthy pointed out to the Committee, "technical" issues, such as an agreement to allow cruise missile testing in Canada, can also become political.[93]

Although it is neither possible nor probably advisable to attempt to make all Members of Parliament expert in the areas of defence and security issues within North America, it is important that they have more than a passing awareness of them. One method of doing this is through the Permanent Joint Board on Defence (PJBD). As the *1994 Defence White Paper* pointed out: "The Permanent Joint Board on Defence is the senior advisory body on continental security and is composed of two national sections made up of diplomatic and military representatives. Its meetings have served as a window on Canada-US defence relations for more than five decades." It added: "The government believes that the Board will remain a valuable forum where national interests are articulated and where frank exchanges on current issues allow discussion of the full spectrum of security and defence issues facing our two countries."[94]

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[92] *Evidence*, Meeting No. 76, May 6, 2002.

[93] Ibid.

The Board is currently co-chaired by a Canadian Member of Parliament and a senior U.S. government official. While a low profile has probably helped the day-to-day work of the PJBD, James Wright, the Assistant Deputy Minister for Global and Security Policy at DFAIT, told the Committee last fall that "I think we will see a heightened political interest in the work of the Permanent Joint Board on Defence.... Ministers will be monitoring this process more closely. They may decide they wish to associate themselves more directly with this process from time to time. It's an option that is certainly out there."[95] To date, ministers have not in fact participated more fully in the work of the Board, although the Committee believes this would be useful. In addition, the Committee will explore means of interacting directly with members of the Board, and encouraging U.S. — and even, potentially, Mexican — colleagues to do the same.

Recommendation 14

In view of the changed security environment in North America since September 11, 2001, the governments of Canada and the United States should expand the mandate of the Permanent Joint Board on Defence to include relevant security issues and officials. The Government of Canada should also facilitate interactions between the Board and Canadian Members of Parliament, and encourage the Government of the United States to do likewise.

More generally, the Canadian Ministers of Foreign Affairs and National Defence along with the U.S. Secretaries of State and Defense — and other relevant Cabinet members as may be necessary — should meet at least once a year, alternating between Canada and the United States, to discuss mutual defence and security issues. These meetings should be coordinated with the Permanent Joint Board on Defence.

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[94] Government of Canada, *1994 Defence White Paper*, p. 21-22.

[95] *Evidence*, Meeting No.43, November 20, 2001.

CHAPTER 4: KEY ISSUES IN MANAGING AND ADVANCING THE NORTH AMERICAN ECONOMIC RELATIONSHIP

4.1 Introduction

As the Committee has previously observed, North American economic integration has increased since free trade in North America was first initiated in the late 1980s, continuing a longer-term trend. This trend towards greater North American integration has occurred despite the best efforts of the federal government to diversify Canada's global trade. The focus of Canadian trade policy, at least prior to September 11, 2001, appeared aimed more at expanding trade relations outside North America than at strengthening economic links on this continent. But the obviously vital importance of those links, underlined by border disruptions, and the effects of increasing competition for the U.S. market[1], have renewed attention to economic relations with NAFTA partners. Indeed, in a recent speech, the Minister for International Trade Pierre Pettigrew outlined a "North American agenda" with the following six goals:[2]

> First of all, I want to increase our share of the U.S. market. Canada typically supplies about 19 percent of U.S. imports, a trade weight well above our economic weight in the world. We should aim to increase our share on a yearly basis. Let us not be fearful of our trade with the U.S.; let us magnify it.
>
> Second, I want to see greater flows of two-way investment on which trade increasingly depends....
>
> Third, we must advance an agenda of smart regulation.... We made great strides in this respect in NAFTA, but NAFTA is 10 years old and we need to make further advances....
>
> The fourth goal is a commitment to making serious efforts to bring trade remedy practice more in line with the growing integration of our shared North American economic space....
>
> As a fifth goal, I want to eliminate the border as an impediment to trade, investment and business development and move the border away from the border.
>
> Sixth and finally, I propose the need for smarter advocacy and representation in the United States.

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[1] Canada cannot afford to take that market for granted. A recent study by J. P. Morgan Chief Economist Ted Carmichael shows that, while Canada remains by far the largest exporter to the United States (18.5% of total U.S. exports), our market share has slipped from a post-NAFTA peak of 19.5% reached in 1996 (see Jacqueline Thorpe, "Canada Gives Back NAFTA Gains," *National Post*, October 19, 2002, p. 1).

[2] Hon. Pierre Pettigrew, Notes for an Address at the 8th Annual Canadian-American Business Achievement Award and International Business Partnership Forum, "The Canada We Want in the North America We Are Building", Toronto, October 16, 2002. Available at: www.dfait-maeci.gc.ca.

In all likelihood, North American trade and investment links will continue to become more deeply integrated in practice, whatever the policy orientation of governments, although several witnesses appearing before the Committee suggested that there may be limits to this "bottom-up" growth. To quote from Professor Stephen Blank of New York's Pace University, additional integration "is blocked in some areas, for example, by the persistence of trade disputes. In other areas, patterns of interests and government policies create inefficiencies."[3]

In the Committee's view, a realistic analysis of the emerging North American economic space suggests it would be unwise as well as unfeasible in policy terms to attempt to deny or reverse these pervasive facts of progressive economic linkage. Consequently, responding to the evolving circumstances of continental economic integration, the principal choice is between two overall directions for managing the North American economic relationship.

The first is essentially to maintain the status quo, thereby enabling the private sector to determine the process of additional integration according to its own agenda. As one prominent business representative put it, leadership of the continental integration file has shifted to the private sector since the implementation of NAFTA.[4] Under this scenario, the combined forces of commerce, technology and security would continue to steadily cement ties among the three NAFTA partners. The status quo option, as Danielle Goldfarb of the C.D. Howe Institute reminded the Committee, involves Canada managing the bilateral relationship "on an as-needed, reactive basis — issue by issue, event by event — with NAFTA as a framework. This is not necessarily a bad thing, but it's not a strategic vision of where Canada wants the North American relationship to go."[5]

Alternatively, policy-makers could seriously examine the costs and benefits of various options for managing increased integration, select an appropriate course of action and assess the strategies required to implement this desired policy direction. These strategies would be based on a new vision of North American relations. Daniel Schwanen felt that "we will have to invent our own integration model, a model that is peculiar to Canada and the United States, and perhaps Mexico as well, as we have already done in the case of trade relations...."[6]

In his testimony before the Committee, Michael Hart of Carleton University identified a number of key areas where strategies would have to be developed: "... on dealing with the challenge of the border to commercial transactions; with the unfinished business of the FTA, the NAFTA, and the WTO; by dealing with the role of the physical border in slowing things down, in creating delays, and in raising costs in its administration;

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[3] *Evidence*, Meeting No. 90, June 13, 2002.

[4] Perrin Beatty, "Isolation or Integration — Canada in North America," Notes for a Presentation to the Brookings Institution, Washington (D.C.), December 6, 2001, p. 8.

[5] *Evidence*, Meeting No. 77, May 7, 2002.

[6] *Evidence*, Meeting No. 64, February 28, 2002.

with the impact of regulatory differences, again involving costs, many of which are avoidable; by dealing with some of the factors that arise from deepening silent integration; and finally, and most importantly, with the fact that the institutions, the procedures and the rules the two governments have in place at this particular time are more in tune with the reality of a free trade agreement, but not with the depth of integration between the two countries, a depth that now goes far beyond the free trade agreement and is more like a customs union or even a common market."[7]

After considerable reflection, we have concluded that it would be far preferable for the Government of Canada, following consultation with key stakeholders, to actively help shape the evolution of our relationship with the United States and Mexico — and to secure maximum advantage from it — than to wait and allow events to dictate what that future relationship will look like. As Jayson Myers of Canadian Manufacturers and Exporters stated: "Canada's position in North America should be determined by clear policy goals aimed at making our integrated economy work better…."[8] What is therefore needed is the development of a more proactive approach to integration, not the current ad hoc, reactive approach. The risk of inaction is that Canada loses control over its economic and social future, thereby lessening the sovereignty it values so highly.

Several vital questions must be answered before such an activist approach based on long-term Canadian interests can be formulated. What solutions are available to deal with and resolve unfinished business left over from NAFTA? What are the best ways to improve upon existing dispute settlement mechanisms and to avoid trade disputes in the first place? What steps can be taken to enhance the economic climate in Canada? What should the border of the future look like? What should be done to facilitate a more efficient flow of goods, services, capital and people on the North American continent? What options for additional integration are available to policy-makers, and what are their advantages and drawbacks? Could a "strategic bargain" with the United States, in which Canada would offer greater security and defence cooperation in exchange for greater access to the American market, be in Canada's best interests? Is there merit in adopting a common currency with the United States and possibly Mexico? These questions form the basis for this chapter on managing the future direction of the North American economic relationship to Canadian advantage.

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[7] *Evidence*, Meeting No. 55, February 5, 2002.

[8] Ibid.

4.2 Addressing Trade Issues and NAFTA's Unfinished Business

WHAT WITNESSES SAID

... the FTA, the NAFTA, and the WTO Agreement are agreements that respond to the degree of silent integration that is the result of the individual choices made by Canadians, Americans, and others on a day-to-day basis, in what they purchase and how they want to live. What governments are doing is trying to catch up with that degree of silent integration by putting in place rules and regulations that recognize the preferences and priorities of most people.

Michael Hart, Carleton University,
Evidence, Meeting No. 55, February 5, 2002.

This is the message, I think, that your committee can bring back to the Government of Canada: when you're involved in international trade issues, you have to look at your own interests first.

Jack Harris, NDP Leader for Newfoundland and Labrador,
Evidence, Meeting No. 58, February 25, 2002.

It's ridiculous that industry people from Canada have to go, cap in hand, to the United States to beg their International Trade Commission not to impose remedies that may hurt our steelmaking industry, considering that this is a country with which we are supposed to have a free trade relationship. It speaks to the fairness or, more precisely, the unfairness in NAFTA.

Randy Collins, M.H.A., Newfoundland,
Evidence, Meeting No. 58, February 25, 2002.

I cannot talk to you about our relationship with the U.S. without speaking about the two documents that shape it: the FTA and the NAFTA. They both held out the promise of access to the U.S. market. This promise was not fulfilled in either agreement. The U.S. maintains powerful policy levers to protect their industries. Our current experiences with both softwood lumber and the steel industry are examples of this lack of secure access. Our exemption from the recent U.S. trade actions on steel was the result of an intensive lobbying effort. It was led by our union in the United States. This was no different from what would have happened before the free trade agreements. Just like then, sometimes we win and sometimes we don't. Softwood lumber is an example of what happens when we lose. We have traded away our sovereignty for the illusion of access to the U.S. markets.

Lawrence McBrearty, United Steelworkers of America,
Evidence, Meeting No. 77, May 7, 2002.

... in the North American context, subsidies have long been a sore point in Canadian-U.S. relations. As you're well aware, the U.S. is the most frequent user of countervailing duty complaints in the world, and Canadian subsidies such as softwood lumber have been a target very, very often, even though previous complaints have failed.

Kenneth Thomas, University of Missouri,
Evidence, Meeting No. 56, February 7, 2002.

As for trade issues, it is imperative that we make progress on trade remedy mechanisms. This remains key unfinished NAFTA business.

Sean Cooper, Atlantic Provinces Chamber of Commerce,
Evidence, Meeting No. 61, February, 27, 2002.

In trade there's no question that disputes like that on softwood lumber are a virus eating away at the health of our economies and the relationship. There's no system in place that is adequate to contain these politicized actions in the United States. There may never be, but there's certainly room to examine whether the present trade dispute settlement mechanisms could not be made more robust.

George Haynal, Harvard University,
Evidence, Meeting No. 56, February 7, 2002.

September 11 was one threat to world peace and security. A far greater threat to world peace and security is now evolving in the elegant halls of the U.S. Congress. There has been a spate — as we are all well aware — of protectionist legislation. There's not just the softwood lumber issue — where many would argue the United States actually has a point — but the steel duties, and even more ominously, the agricultural bill, which massively increases subsidies.

Fred McMahon, Fraser Institute,
Evidence, Meeting No. 78, May 7, 2002.

The free trade agreement and NAFTA you say are here with us. They both contain a clause saying Canada can withdraw by simply giving six months' notice. If we did so, the sky wouldn't fall in at all; we would simply revert back to the GATT rules that have governed our trade with the United States for the last five decades. Those rules were much better to Canada than these rules are, much more favourable to our industries.

David Orchard, Citizens Concerned About Free Trade,
Evidence, Meeting No. 83, May 10, 2002.

When we think of an alliance with the United States, I really want to emphasize that we are deluded if we think the Americans are our friends. Palmerston, the British politician in the 1800s, said this: "Nations do not have friends; they have only interests." We've seen this most recently with the softwood lumber dispute and the coming challenge to the Canadian Wheat Board production, and of course more recently we see it in every instance where there are attempts to gain equality before the law, as at the WTO, and then we get involved with long legal procedures with our supposed friends in the States. I can quote examples where this has happened with the peasants of Mexico, where they are unable to compete with the influx of cheap American corn, and also Grenada way back, with their banana produce.

Tony Haynes, Roman Catholic Diocese of Saskatoon,
Evidence, Meeting No. 83, May 10, 2002.

Greater North American political or economic integration in agriculture is unworkable while very serious policy divergence between Canada and the U.S. exists. Most notable is the U.S. Farm Bill, agreed to by the House and Senate … on May 1. It does not make sense to harmonize economic systems while extraordinary agricultural subsidy transfers are taking place and increasing in the U.S. Extremely high levels of farm support, as are witnessed in the U.S. and the EU, provide incentive for uneconomic investment, which ultimately leads to overproduction and depressed world prices.… Further economic integration or policy harmonization would not necessarily result in better and more secure access to the U.S. market for Canadian products, including wheat, as trade irritants are primarily due to the domestic clout of U.S. farm interests. Greater economic and policy integration with the U.S. does not make sense while Canadian farmers and other businesses remain subject to trade harassment and while there is no adequate trade remedy to guarantee unfettered access to the U.S. market.

Larry Hill, Director, Canadian Wheat Board,
Evidence, Meeting No. 75, May 6, 2002.

So what's the bottom line for the current North American relationship? It's probably about the same as what should be expected from a trade agreement. Without the political will to move to an arrangement with a range of common institutions and policies, and with the limitations of sovereignty that they would impose, there can only be marginal improvements. It may be possible to reduce the threats to market access proposed by contingent protectionism mechanisms such as dumping and countervail, and maybe some further limits could be placed on things like farm subsidies, but probably not a great deal more. This means that at times trade relationships will be strained and Canada must be vigilant and prepared. It's not always going to be friendly.

William Kerr,
Estey Centre for Law and Economics in International Trade,
Evidence, Meeting No. 83, May 10, 2002.

The overarching theme of my comments is that the status quo in the Canada-U.S. economic relationship is not likely to continue. Desired changes in the relationship will be more proactively pursued by Canadians than Americans. The agenda for change and action will have to originate with the Canadian side, led by its political and business leaders. The United States will have to be convinced of the benefits that may result from a further deepening of the economic relationship between the two countries. I don't mean to be provocative, but I'm very sincere in those observations.

Isaiah A. Litvak,
Florida Atlantic University,
Evidence, Meeting No. 87, June 4, 2002.

A. Assessing the North American Free Trade Experience

One way of assessing the current North American trade framework is to focus on the obvious concerns that are consistently highlighted in the media and that understandably surfaced in testimony to the Committee, notably: softwood lumber, agricultural subsidies and the U.S. Farm Bill, culture, energy, steel, water, the rights of corporations under Chapter 11 of NAFTA, and others. It is also important to take a broader view of the Canada-U.S.-Mexico trade context and ask a simple, yet revealing, question: have the 1989 Canada-U.S. Free Trade Agreement (CUFTA) and the 1994 NAFTA been successful in overall terms for Canada?

Some of the responses the Committee received on this issue were noted in Chapter 1, as was the general polarization between business representatives claiming clear economic success and labour spokespersons who were largely critical of the agreements and their effects on workers and society. Larry Morrison of the Canadian Association of Petroleum Producers spoke of one key export sector in the following glowing terms:

> The oil industry has been doing very, very well over the past number of years in being very able to compete in the U.S. market. I would attribute this to good sound government policy, starting with the North American Free Trade Agreement. We have open market access, and governments let the price signals come through, although it's sometimes painful when prices spike. But they have stayed away from policies that would dictate pipeline routes, or dictate certain tax treatment, which

> might put us offside. So it's a very level playing field, with open market access and strong adherence to free trade principles.[9]

In contrast, Lawrence McBrearty of the United Steelworkers of America stated that "[b]oth NAFTA and FTA held out the promise of access to the U.S. market. This promise was not fulfilled in either agreement. The U.S. maintains powerful policy levers to protect its industries. ... We have traded away our sovereignty for the illusion of access to the U.S. markets. NAFTA, while it doesn't provide secure access, does limit the actions our country can take on behalf of its citizens."[10] David Orchard of Citizens Concerned About Free Trade carried this train of thought one step further by calling for Canada to withdraw from the FTA and NAFTA, in which case, he argued, Canada would be governed uniquely by the GATT under the WTO rules, rules he felt would be much more favourable to Canada.[11] William Kerr of the Saskatoon-based Estey Centre for Law and Economics in International Trade noted that Canada certainly could abandon NAFTA — perhaps as a way of regaining some voluntarily relinquished sovereignty — and thus fall under the WTO rules, but he warned that these rules do not "provide us with as much security of access to the U.S. or Mexican markets as the NAFTA does."[12] Stephen Clarkson of the University of Toronto, however, made the following remark: "If I had to give a yes or no answer to whether we are better off without NAFTA, which is obviously too simple a question, I would say we would be better off without it because in many areas the WTO rules are better than the NAFTA rules."[13]

This sort of back and forth in the different arguments put to us, which occurred throughout the hearings, indicates to the Committee that our trilateral trade relationship is working for some, even many, but not for others, and for a variety of reasons — a signal that some changes are needed.[14] During our hearings in Mexico City, Antonio Ortíz Mena of the Centro de Investigación y Docencia Económicas provided a lucid assessment of NAFTA and an overview of some of the unfinished business:

> NAFTA has performed very well, if measured in terms of the increase of trade and investment flows in the North American region, perhaps more so than either opponents or supporters expected in 1994. There are, however, significant challenges that must be addressed so that NAFTA's benefits are shared more equally and its adverse effects minimized.... [A]mong them are poverty reduction,

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[9] *Evidence*, Meeting No. 80, May 8, 2002.

[10] *Submission*, Meeting No. 77, May 7, 2002.

[11] *Evidence*, Meeting No. 83, May 10, 2002.

[12] Ibid.

[13] *Evidence*, Meeting No. 77, May 7, 2002.

[14] See also the recently published feisty print debate on the track record of NAFTA between, on one side, John Cavanagh and Sarah Anderson of the Washington D.C.-based Institute for Policy Studies, and on the other, former Mexican NAFTA negotiators Jaime Serra and J. Enrique Espinoza: "Happily Ever NAFTA?", *Foreign Policy*, No. 132, September-October 2002, p. 58-65. Cavanagh and Anderson argue that while NAFTA has boosted investment and trade, "workers, communities, and the environment in all three countries have suffered from the agreement's flaws." Serre and Espinoza counter that the wide-ranging and indisputable financial benefits of NAFTA for Mexico cannot be underestimated in their positive impacts on all aspects of Mexico's economic and social situation.

> income distribution, participation of small and medium enterprises (SMEs) in export activities, regional development, and complementation of economic growth with protection of the environment, which can all be subsumed under the rubric of economic integration and social equity, and the challenge of keeping open borders for the legal flows of goods, capital, and people and closing them off for illegal flows.[15]

Many important themes emerged from the testimony before the Committee as witnesses assessed the CUFTA and NAFTA track record. These themes are noted throughout this chapter, but it is useful to highlight here some of the broad, "big picture" notions.

First, many pointed out that *the vast majority of North American trade runs smoothly and without adverse incident*. Donald MacKay of the Canadian Foundation for the Americas (FOCAL) sought to underline a balanced perspective and refused to define our trade relationships by the disagreements. In his words, "what we have is about 4% of the trade being subject to dispute. The other 96% goes on day by day without any difficulty whatever."[16]

Several witnesses emphasized the relative success of the Canada-U.S. trade relationship by describing the softwood lumber dispute as a unique deviation, albeit a significant one. Brian Stevenson of the University of Alberta noted that "if you look at the enormity of the trade relationship, and then you measure it against the trade disputes, which are very important to us but really don't represent a huge percentage of the trade we're doing, you may find — and probably nobody could calculate this exactly — 99% of the bilateral relationship is working fairly well between the two countries. Unfortunately, sometimes that 1% in the trade conflict between us is found in areas that we're very sensitive about and are very worried about, such as softwood lumber."[17] Professor Louis Balthazar of Laval University acknowledged that "softwood has been a snag and is a problem for us, but the greater part of our trade is working admirably well."[18] Professor George MacLean of the University of Manitoba highlighted the sensitivities inherent in any relationship of interdependence:

> I don't think the problems we are facing on softwood lumber, which are real and significant, are sufficient to say bilateral trade, commercial relations, and investment with the United States are not working. It's simplistic.... Some people are suggesting softwood lumber is not working so the American-Canadian economic relationship is not working. It's not the case at all. I would say that in any relationship of interdependence you have sensitivities to the relations among partners, but you also have vulnerabilities. When you have one state or one actor who makes a policy decision that's going to implicate the other, then we become vulnerable to them. It's clear. We've always known this. It's clear we are vulnerable

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[15] *Submission*, "The Future of Integration in North America," submitted to the Committee during its meeting at the Canadian Embassy in Mexico City, March 14, 2002.

[16] *Evidence*, Meeting No. 88, June 6, 2002.

[17] *Evidence*, Meeting No. 82, May 9, 2002.

[18] *Evidence*, Meeting No. 60, February 26, 2002.

> to what the United States is going to do. I would suggest, though, that the vulnerabilities we would experience without the close economic relationship would be far greater than we're facing in a single sector.[19]

A second theme was how *NAFTA has helped prevent an overwhelming North American "hub and spoke" model* whereby the United States would act as the dominant hub and simply conclude bilateral agreements with the countries of its choice. Some, such as Laura Macdonald of the Carleton University Centre for North American Politics and Society, saw this success as the example Canada should look to in promoting sub-regional and broader cooperation agreements throughout the Americas.[20] George MacLean summed up these ideas well:

> We were very successful, I would argue, with NAFTA in avoiding a hub and spoke mechanism that the Americans would have liked to have seen, which is to say bilateral free trade agreements with Mexico, then Brazil, and so on. What we were successful in doing is saying we'd like to be involved at the table in order to create a bilateral relationship, and make a bilateral relationship multilateral. What we were able to do effectively in the late 1980s and early 1990s is to curb a hub and spoke development that was taking place within the Americas. We have to do that now, even though in the Americas we are even less integrated than we were with Mexico, in order to maintain a true multilateral relationship.[21]

Yet John Foster, in his forthcoming review of NAFTA, astutely notes that despite the trilateral agreement, the hub and spoke attitude of the United States when negotiating with Canada and Mexico — a posture derived from the asymmetries of size and power between the partners — has kept alive certain key trade irritants, such as U.S. trade remedy actions.[22] Such irritants are discussed later in this chapter.

Apart from tempering the hub and spoke structure, NAFTA formally introduced Canada and Mexico to each other — thus creating new and, as noted throughout this report, yet-to-be-tapped opportunities — and made each country realize that the obvious asymmetries they share within the NAFTA power structure provide them with a special bond that can augment their force in dealing with the elephant that is the United States.

These *asymmetries and their significance* signal a third broad theme. The weight of the elephant is massive. Stephen Clarkson commented that "[i]n terms of power, whether you want to use the word 'domination' or 'hegemony' or 'influence' or 'asymmetry', it's obvious that the difference between Canada and the United States is enormous."[23] Reg Whitaker argued that the "vastly disproportionate weight of the U.S." leads to American government political decisions having a direct effect on the NAFTA partners because "neither Canada nor Mexico, even in an alliance, could wield enough weight to seriously influence the hold of U.S. national institutions over North American decision-making."[24]

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[19] *Evidence*, Meeting No. 75, May 6, 2002.

[20] *Evidence*, Meeting No. 88, June 6, 2002.

[21] *Evidence*, Meeting No. 75, May 6, 2002.

[22] John W. Foster, "NAFTA at Eight: Cross Currents," in *USA and Canada 2003*, 5th edition, Europa Publications, London (forthcoming), p. 1 of pre-publication draft; cited with permission.

[23] *Evidence*, Meeting No. 77, May 7, 2002.

Products of these asymmetries include the fourth and fifth common themes the Committee encountered: the *current U.S. administration's relative lack of interest in addressing North American integration issues at this time*, and its *tendency to unilateral action*. As was clear from our meetings in Washington, D.C., in March 2002, any impetus for a reconsideration of the overall North American trade infrastructure embodied in NAFTA will likely have to come from Canada and Mexico. And even then, there is no guarantee it will even be considered. David Zussman of the Public Policy Forum explained that the resolution of trade disputes through development of new institutional responses "is not likely something the Americans are going to spend much time on, because we know it's not an issue of particular importance to them."[25] Isaiah Litvak of the Florida Atlantic University commented that Canadians are "fixated, focused and obsessed with respect to the United States," while the United States "hardly notices Canada and Canadians."[26]

But all is not lost. Professor Stephen Blank of Pace University in New York rightly reminds us that the NAFTA relationship is one of interdependence, regardless of what the U.S. government says or does:

> … one-third of U.S. exports now go to our NAFTA partners. That's a reality. That ain't tunafish or chopped liver; that's real stuff. The reality is that in the United States we are deeply dependent upon this relationship. The realization of that dependence led major industrial segments, including automotive and so on, to say on September 12, "Do not close these borders, because if you do, you're going to throw hundreds of thousands of Americans out of work."[27]

Furthermore, as the United States takes an aggressive stance on trade remedy actions, Canada and Mexico may wonder how best to deal with such political decisions, which may have social and economic repercussions throughout North America. Aaron Cosbey of the International Institute for Sustainable Development notes that in the environmental context, the way to deal with U.S. unilateralism "is to try to make the case to the United States that they are suffering as a result of their policies."[28] The Committee agrees that in relation to the softwood lumber and other disputes, this sort of advocacy — which is addressed in greater detail in Chapter 5 — is certainly one strategy that deserves consideration by Canada for implementing as effectively as possible. Moreover, the Government of Canada should "stay the course" with respect to its legal strategy in the dispute over softwood lumber while at the same time providing WTO-consistent assistance to the industry and affected communities.

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[24] *Evidence*, Meeting No. 76, May 6, 2002.

[25] *Evidence*, Meeting No. 55, February 5, 2002.

[26] *Evidence*, Meeting No. 87, June 4, 2002.

[27] *Evidence*, Meeting No. 90, June 13, 2002.

[28] *Evidence*, Meeting No. 80, May 8, 2002.

A trade agreement is a political compromise. William Kerr describes this compromise within NAFTA as one lying "between the need at times to be able to respond to requests for protection from those suffering from short-run economic hardship or long-run deterioration in their international competitiveness and the desire of firms that wish to engage in international commerce for strong rules to protect their investments from some capricious acts of foreign governments."[29] A sixth theme expressed by many witnesses is that *this political compromise that is NAFTA may be skewed in favour of corporate rights*. Stephen Clarkson describes NAFTA as a component of Canada's "external constitution" because it places limits on government action and creates rights and institutions for certain categories of trade-related activity.[30] Pointing to the Chapter 11 investor-state provisions, he describes as an "aberration" the fact that NAFTA gives foreign corporations the right to sue governments. These provisions are discussed in detail below; suffice it to say here that Clarkson is not alone in this opinion. Michael Bradfield of Dalhousie University expands on the issue and proposes a possible solution:

> … I would think that every trade agreement we go into should state in the preamble that nothing in the agreement supersedes the right of countries to act in the welfare of their people or for the protection of the environment, and nor can anything in that trade agreement abrogate such international agreements as the Universal Declaration of Human Rights, the International Labour Organization conventions, and things like that. What we get now is that these trade agreements supersede all of those other things, individual nations' legislation and international conventions. And that's basically saying that a tool, a hammer, can be used to smash whatever you want to smash. The law should say that a hammer is used to build buildings, not to smash things. The problem is, the focus of these agreements just assumes, even when there's very little evidence to support the assumption, that corporations will act in the public interest.[31]

Regardless of the form any future North American integration may take, we must remember the continent does not exist in a vacuum. It is important to be aware of the global international trade context within which North America fits. Hemispheric negotiations are underway to attempt to create a Free Trade Area of the Americas (FTAA) by January 2005. In November 2001, the World Trade Organization (WTO) launched a new round of trade negotiations in Doha, Qatar, entitled "Doha Development Agenda," and the new Director General of the WTO, Supachai Panitchpakdi, has announced his intention of completing these trade talks by mid to late 2004.[32] Mexico will host the September 2003 WTO ministerial meeting in Cancun. Canada is also playing a leading role in this international trade forum, as earlier this year Sergio Marchi, Canada's

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[29] *Evidence*, Meeting No. 83, May 10, 2002.

[30] *Evidence*, Meeting No. 77, May 7, 2002. Clarkson elaborates this argument in his new book, *Uncle Sam and Us: Globalization, Neoconservatism, and the Canadian State*, especially Chapters 3 and 4.

[31] *Evidence*, Meeting No. 59, February 26, 2002.

[32] Eileen Ng, "WTO Chief Would Like to Finish Doha Round in 2004," *Agence France Presse*, September 5, 2002. Available at: www.tradeobservatory.org.

Ambassador to the WTO, was named Chair of the WTO General Council, the body that coordinates the WTO's regular work program and that oversees the new round of global trade negotiations.[33] And, of course, the United States will be negotiating with renewed vigour and enthusiasm now that the Bush administration has been granted its coveted "fast track" or trade promotion authority.[34]

These highlights in the global arena set the context for a final introductory theme: some have suggested that *perhaps our attention should be focused on the WTO forum* as the route to obtaining the greatest long-term benefit for all. Joseph Nye of Harvard University justified such a focused approach to free trade as follows:

> I think we ought to be placing our greatest emphasis on completing the WTO round that was announced at Doha. I think there is a legitimate role for regional free trade arrangements, but we should think of them in the context of the old article 24 of GATT: they should be more trade-creating than trade-diverting. A world in which we allowed regional arrangements to divert trade away from global trade would not be a better world. We have to remember a larger perspective, which was expressed at Doha, but remains very important, that half the world's people live on under $2 a day. ... So we really have to keep an eye on making sure we don't look to narrow versions of free trade that make us feel better in one dimension and get us off the hook on what we're really doing on these larger questions of bringing developing countries into opportunities to prosper through trade.... I think, as we make judgments like how we should approach hemispheric free trade, how we should deal with our objectives in free trade, we ought to be very careful to ask ourselves whether we are doing something that will lead to a stronger, better international economic system that benefits poor people in poor countries.[35]

While in agreement with Professor Nye's comments, the Committee sees no reason why we cannot simultaneously focus on both the global and the North American trade contexts. Vision and initiative are required to maximize the potential of each. Clearly, there are some key issues and questions — and disputes, some brand new, some long-simmering — that have arisen or evolved in these first eight years of NAFTA and that need to be addressed: the unfinished business within the NAFTA framework. As Minister for International Trade Pierre Pettigrew recently commented, "we must not stand still. We must not be complacent. Much like the bicycle theory of trade negotiations — as soon as you stop advancing, you stumble — the same is true for our North American agenda."[36]

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[33] "Canada's WTO Ambassador to Play Key Role in Global Trade Negotiations," News Release No. 15, Department of Foreign Affairs and International Trade, Ottawa, February 15, 2002. Available at: webapps.dfait-maeci.gc.ca/minpub/default.asp?language=E.

[34] Trade promotion authority is the centrepiece of the *Trade Adjustment and Assistance Act* (H.R. 3009), which was signed into U.S. law by President Bush on August 6, 2002. The authority, which lapsed in 1994 and evaded renewal attempts by the Clinton Administration, enables the president to negotiate any new trade deals and present them to the U.S. Congress for a straight up-or-down vote within 90 days, with no possibility of amendments: basically a "take it or leave it" scenario. See Elisabeth Bumiller, "Bush Signs Trade Bill, Restoring Broad Presidential Authority," *The New York Times*, August 7, 2002, p. A5.

[35] *Evidence*, Meeting No. 74, May 2, 2002.

B. The Prevention and Resolution of Trade Disputes

Trade disputes most often arise from the unilateral imposition of protectionist measures — such as subsidies, tariffs or quotas — by a country attempting to insulate its own industries and economy from international trade competition. The aim of CUFTA and NAFTA was to prevent unilateral protectionism and to remove existing protectionist measures; in theory, under NAFTA, there should not currently be any such measures with respect to trade between Canada, Mexico and the United States. In reality, we know this is not the case as we hear about the extremely large, punitive tariffs the U.S. Customs Service is collecting from Canadian softwood lumber producers at the Canada-U.S. border.

Many witnesses before the Committee focused on, and expressed deep frustration over, what was commonly referred to as "U.S. protectionism" or "U.S. unilateralism". Robert Keyes of the Canadian Chamber of Commerce made reference to a recent International Chamber of Commerce meeting he had attended where representatives from 82 countries universally condemned U.S. trade policy and its protectionist elements.[37] During our March meetings in Mexico City, Enrique Berruga, the Mexican Under Secretary of Foreign Affairs, spoke of the need for Canada and Mexico to have a joint approach to the protectionist attitude of the United States. The Canadian Wheat Board's Larry Hill called for effective disciplines on abusive U.S. export credits and argued that it would make no sense to increase harmonization of our economic systems while the massive agricultural subsidies under the U.S. Farm Bill are in place.[38]

Other witnesses pointed to the obvious U.S. protection of its shipbuilding industry under the Jones Act, which is something "the Americans have never wanted to let go of," according to Ivan Bernier of Laval university.[39] Andrew Wynn-Williams, speaking for the British Columbia Chamber of Commerce, addressed the U.S. allegations that Canadian softwood lumber producers are unfairly subsidized by describing the situation as "a productivity issue and a quality of wood issue that makes our product much more attractive and much less expensive. The whole subsidy concern in the U.S. is driven by market share. All it boils down to is that they want protection of their market share."[40] David Orchard argued that CUFTA and NAFTA actually increased American protectionism against Canadian exports by placing a new layer over the GATT processes, a layer that enables the United States to act according to its own trade laws.[41]

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[36] Pettigrew (October 2002).

[37] *Evidence*, Meeting No. 89, June 11, 2002.

[38] *Evidence*, Meeting No. 75, May 6, 2002.

[39] *Evidence*, Meeting No. 60, February 26, 2002.

[40] *Evidence*, Meeting No. 76, May 6, 2002.

Protectionism, however, exists, and has always existed, around the world. It cannot be avoided, especially in a democracy. Joseph Nye recounted his analysis of the history of Canada-U.S. trade disputes and explained the relative inevitability of some amount of protectionism in a democracy:

> ... what struck me was how many of the disputes, fisheries, lumber, trade issues, water, were there in the 1920s and 1930s and continue this day. I think the larger question of protectionism is endemic in all democracies. In a democracy people who feel intense damage or intense concerns tend to be more politically active and mobilized, and they tend to speak to their Member of Parliament or their member of Congress and push harder. It often turns out that the producers are more easily organized than consumers. The net result is that all democracies have a certain amount of protectionism — the squeaky wheel gets the grease.[42]

The Committee believes the way to prevent and resolve trade disputes is not to attempt to eliminate protectionism — a virtual impossibility and a recipe for perpetual frustration — but to ensure it is played out within a rules-based environment where the most problematic and damaging cases of unilateral protectionism can be dealt with directly, fairly and quickly.

1. The Importance of a Continental, Rules-Based Approach

... it is very much in Canada's interest, because of its relative size to the United States, because it is a smaller economy, because it is a smaller country, because we are so dependent on trade and on access to markets and, in particular, on access to the United States' market, it is in Canada's interest always to have a comprehensive rules-based system in place that allows us not simply to depend on the kindness or generosity of our trading partner, but rather on the existence of clear rules, which are enforceable, which are transparent, and whose adjudicative value is widely and broadly accepted by the parties to the dispute.

Robert K. Rae, "The Politics of Cross Border Dispute Resolution," *Canada-United States Law Journal*, Vol. 26, 2000, p. 66.

Canada entered the negotiations on CUFTA intending to emerge with a mandatory, rules-based dispute settlement system that would govern the implementation of the agreement and serve as a secure route for Canada to challenge U.S. protectionist actions without the asymmetry of U.S. power playing a role in the process.[43] In speaking of a "rules-based" system, the Committee is referring to a system of dispute resolution based on the adjudication of legal rules by an independent and impartial body, as opposed to a more power-oriented system that is based on diplomacy and consensus, and that is much more susceptible to political influence. The dispute settlement system that Canada obtained through the CUFTA — and later NAFTA — negotiations is only partly rules-based. Some of the rules leave open the possibility of political intervention, such that Canada, and now Mexico under NAFTA, is still susceptible to the adverse effects of U.S. political decisions and power.

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[41] *Evidence*, Meeting No. 83, May 10, 2002.

[42] *Evidence*, Meeting No. 74, May 2, 2002.

[43] Willam C. Graham, "Dispute Resolution in the Canada-United States Free Trade Agreement: One Element of a Complex Relationship," *McGill Law Journal*, Vol. 37, 1992, p. 544, p. 551.

Numerous witnesses before the Committee were adamant about the necessity for a continental rules-based system to deal with trade disputes. Reginald Stuart of Mount Saint Vincent University underlined the preventative function of a rules-based system. He felt that "the rules-based system was the very best way to go, because it removed a wide number of issues from the table. Setting up an elaborate system, going through the NAFTA tribunals, and so on, has actually discouraged a lot of these things from coming forth."[44] Richard Ouellet of the Institut québécois des hautes études internationales put it bluntly: "The trade dispute settlement system between Canada and the USA must work well for integration to work well."[45]

While acknowledging that the dispute settlement mechanism could be improved, Brian Crowley of the Atlantic Institute of Market Studies argued "we must always strive to move trade issues into a rules-based arena. That was one of the primary motivations behind the free trade agreement. If you don't have a treaty in which there are rules set down and in which you know how you're going to resolve disputes, you are always at the mercy of the more powerful partner."[46] Don Barry of the University of Calgary also underlined the asymmetries and noted, "[i]t is in our interests that as much of our interaction as possible takes place within a framework of rules in which issues are settled on the basis of agreed standards rather than sheer power. Moreover, Canada should not hesitate to use these rules to challenge unfair U.S. trade policies."[47]

The DFAIT Assistant Deputy Minister for the Americas, Marc Lortie, explained that Mexico is fully aware that it needs to improve the rules-based character of its system if it wishes "to be a welcome land for foreign investment."[48] Danielle Goldfarb of the C.D. Howe Institute felt that any rules-based structure is positive for Canada, as well as for Mexico, but argued that we need "a more established rules-based framework, one where we're expanding that beyond what we have currently. ... Clearly, the framework we have in place is not strong enough to deal with a number of the serious disputes that have been going on for a long time."[49] American scholar Robert Pastor also used his testimony to urge Canada to fashion and press for a North American agenda of rule-making and institution-building:

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[44] *Evidence*, Meeting No. 59, February 26, 2002.

[45] *Evidence*, Meeting No. 60, February 26, 2002.

[46] *Evidence*, Meeting No. 59, February 26, 2002.

[47] *Evidence*, Meeting No. 80, May 8, 2002.

[48] *Evidence*, Meeting No. 57, February 19, 2002. The Assistant Secretary of the Mexican economics ministry, Angel Villalobos, recently announced that modifications are about to be made to the Mexican Foreign Trade Law to streamline the legal procedures domestic producers must follow to defend themselves in the NAFTA context. Mr. Villalobos also announced that Mexico will soon open a Dispute Resolution Corporation office in Mexico City to facilitate the resolution of NAFTA dispute claims. See Stephen Lewis, "Mexico takes strides toward NAFTA dispute resolution," *Food Chemical News*, Vol. 44, No. 37, October 28, 2002.

> … Canada's leadership has always been in developing international rules and institutions. These are most needed right now in North America today. They give you the greatest defence from the power of the United States. The United States will not always follow all the rules — we know the history — but by and large it will accept the institutions and the rules. So leaving these wide areas open for just sheer power to have its effect confuses me, from your perspective. Why shouldn't you take advantage of your greatest strength, which is developing rules and institutions?[50]

Witnesses were cautious, moreover, of Canada engaging in ad hoc arrangements — especially with the United States — outside of a rules-based framework. Danielle Goldfarb felt that such an "issue by issue" approach is fine with respect to Chapter 19 binational panel reviews of the "overzealous use of U.S. trade remedy laws," but it does not constitute a "strategic vision of where Canada wants the North American relationship to go."[51] Louis Bélanger of the Institut québécois des hautes études internationales summed up a common theme:

> I think we must start by resisting the inclination to deal with each cooperation problem with the United States on an ad hoc basis. This is what they will inevitably try to do in the case of the economy and security. So we must try to resist the temptation to establish quick dispute settlements with them in exchange for sacrificing future advantages. As we have seen clearly in the case of softwood lumber and the security perimeter, the Americans get us to negotiate ad hoc arrangements, non-institutional arrangements, arrangements outside NAFTA, and outside institutional agreements. I think there's often a great temptation to reach quick compromises with the Americans, because there are some urgent short-term economic gains for us. However, I think that if we do this, we are agreeing to an approach that is a losing one for Canada.[52]

The Committee accepts the view that Canada must deal with trade disputes through continental, rules-based solutions and institutions. The asymmetrical power structure of the NAFTA relationship puts both Canada and Mexico at a distinct disadvantage when negotiating with the United States outside of a rules-based infrastructure.

Recommendation 15

The Government of Canada should resist the temptation to seek short-term gains through reactive, ad hoc solutions to trade problems

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[49] *Evidence*, Meeting No. 77, May 7, 2002.

[50] *Evidence*, Meeting No. 56, February 7, 2002.

[51] *Evidence*, Meeting No. 77, May 7, 2002.

[52] *Evidence*, Meeting No. 60, February 26, 2002.

with NAFTA partners. Wherever possible, trade disputes should be addressed through rules-based, institutional mechanisms, and the Government should use its best efforts to improve and expand such mechanisms on a continental basis.

2. Existing NAFTA Dispute Settlement Mechanisms

The key dispute settlement provisions under NAFTA may be divided into four broad categories:

- The investor-state provisions of Chapter 11 for the settlement of investment disputes through arbitration;
- The Chapter 19 state-state binational panel process for the review of anti-dumping and countervailing measures;
- The Chapter 20 state-state general dispute settlement procedures; and
- The environment and labour dispute settlement procedures in the side agreements.[53]

The Chapter 11, Chapter 19, and environment and labour systems are each addressed in turn later in this chapter. Chapter 20 is addressed first because it is the dispute resolution system used for the general interpretation of NAFTA, and it is the default mechanism employed when a dispute does not come within one of the specific categories.

Dispute settlement mechanisms play a major deterrence role. The fact of their existence should be enough to prevent disputes from arising. Of course, the only way for this preventive function to work is for the mechanisms to be perceived as enforceable, and thus actually to be enforceable. Without such "teeth" the credibility of the mechanism is diminished. The Chapter 20 mechanisms are not enforceable; that is, they do not result in conclusions that are binding on the parties to the dispute.

When a dispute arises, the first step is consultations between the parties.[54] If the consultations do not resolve the dispute, the next step is a meeting of the NAFTA Commission, which is a political body composed of ministerial-level representatives from each party or their delegates.[55] This step enters the realm of diplomacy and power-based negotiations, thus derailing the rules-based focus of the system. If the NAFTA Commission is unable to resolve the dispute, the third step is for one of the parties to request that an arbitral panel be established.[56] The panel is composed of independent trade specialists from each country. After hearing from each party, it produces a report with recommendations that are not automatically binding on the parties; thus, the final decision on the dispute remains in the hands of the parties and is susceptible to diplomacy and power politics.

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[53] These are the key dispute settlement mechanisms for the purposes of this report. It is noteworthy that within NAFTA there are also provisions for: the arbitration of financial services disputes (Chapter 14); independent domestic review of government procurement (Chapter 10); and intellectual property (Chapter 17) disputes. For an overview of all dispute settlement mechanisms in NAFTA, see William A. Kerr, "Greener Multilateral Pastures for Canada and Mexico: Dispute Settlement in North American Trade Agreements," *Journal of World Trade*, Vol. 35, December 2001, p. 1172-79.

[54] NAFTA, Article 2006.

Commentators on this process have highlighted these shortcomings as follows:

> The parties thus participate to a large extent in the settlement of their dispute as the negotiations that take place between them following the report are a determining factor in the outcome. The parties must, indeed, agree on a mutually satisfactory solution, which "*normally* shall conform with the determinations and recommendations of the Panel" (Art. 2018(1) of NAFTA [emphasis added]). It is therefore the disputing parties themselves who define ultimately the outcome of the dispute, the Commission having no role at this stage.... In practice ... the parties use the Panel's report as a basis for negotiations, the report therefore marking the beginning of new negotiations rather than the end of the dispute. Consequently, the final settlement of the dispute is more a matter of bilateral negotiations — between the interested Parties — than a matter of jurisdictional logic. The settlement is thus left in the hands of the stronger party, which, in the absence of any mechanism of appeal or review of the negotiated solution, is actually very weakly constrained by the Panel's report. This particularity of the North American dispute settlement mechanism is probably the main structural factor which explains its perviousness to the political factor.
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> Another indication of the jurisdictional weakness of NAFTA's general dispute settlement mechanism is the non-binding nature of the Panel's recommendations. Technically, the Panel's recommendations — like those of the Commission — do not bind the United States, Canada or Mexico. This lack of binding force not only affects the final report of the Arbitral Panel, but also, indirectly and to some extent, the disputing Parties' negotiated solution.[57]

It is important to point out that these shortcomings do not exist in the dispute settlement procedures under the WTO, which are laid out in the WTO *Dispute Settlement Understanding* (DSU).[58] Disputes are administered by the WTO Dispute Settlement Body (DSB), which is composed of all WTO members and which chooses panels for specific disputes.[59] The panellists may not be citizens of either of the parties to the dispute, thus highlighting the third-party-adjudication nature of the WTO process. There is no equivalent in the WTO to the politically oriented NAFTA Commission, which enables the NAFTA parties to play a direct role in the resolution of their own dispute. As William Kerr has noted, in the WTO system "the implementation stage is not politicized. In short, the general NAFTA disputes system is less transparent than the WTO's and hence increases the risks of investing in international trade activities for firms in Canada and Mexico."[60]

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[55] NAFTA, Articles 2001 and 2007.

[56] NAFTA, Article 2008.

[57] Vilaysoun Loungnarath and Céline Stehly, "The General Dispute Settlement Mechanism in the North American Free Trade Agreement and the World Trade Organization System: Is North American Regionalism Really Preferable to Multilateralism?" *Journal of World Trade*, Vol. 34, February 2000, p. 45-46.

[58] The full legal text of the *Dispute Settlement Understanding* may be accessed at the following page of the WTO website: www.wto.org/english/docs_e/legal_e/legal_e.htm#dispute.

[59] Gabrielle Marceau, "NAFTA and WTO Dispute Settlement Rules: A Thematic Comparison," *Journal of World Trade*, Vol. 31, April 1997, p. 42.

Furthermore, reports by DSB panels are binding on the parties,[61] unlike the situation under NAFTA Chapter 20, where the panel's recommendations may simply lead to further politically susceptible negotiations between the disputing parties. Use of the WTO route is not simply wishful thinking. Article 2005 of NAFTA states that disputes arising under both Chapter 20 of NAFTA and the GATT "may be settled in either forum at the discretion of the complaining Party."[62]

The most salient comments with respect to reforming Chapter 20 were put forward by Antonio Ortíz Mena of the Centro de Investigación y Docencia Económicas during our March 2002 meetings in Mexico City:

> Chapter 20 panel decisions must be made binding. At present, panels are only entitled to issue recommendations but the flexible nature of the general dispute settlement mechanism has become more of a liability than an asset, and it is unwarranted given that WTO dispute settlement proceedings now call for binding panel rulings. The change could be achieved through a memorandum or protocol subscribed by the chief executives of all three countries and need not entail renegotiating NAFTA.[63]

The Committee agrees. A dispute *settlement* mechanism must have the capacity to actually *settle* the dispute, not simply formalize negotiations within a semi-rules-based structure. To call such a structure an effective and enforceable dispute settlement mechanism is an exercise in hypocrisy. The Committee is hopeful that by working together and pointing to the globally accepted example of the WTO DSU, Canada and Mexico could convince the United States to modify the shortcomings of Chapter 20 described above. In particular, for greater certainty and in order to avoid any undue politicization of the dispute resolution process, the final reports of arbitral panels should be made automatically legally binding on the parties to the dispute, and the transparency of the process should be increased. If such modifications prove impossible to achieve,

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[60] Kerr (2001), p. 1174.

[61] Marceau (1997), p. 66. Panel reports are automatically adopted by the DSB, and thus binding on the parties to the dispute, unless all WTO members decide otherwise by consensus. It is noteworthy that the DSU also provides for an extensive appeal process to review any legal issue arising from a panel report.

[62] There are certain potential exceptions laid out in Article 2005. If the third country wishes the matter to be dealt with under NAFTA, all three countries must meet and agree on a forum. If they cannot agree, NAFTA will be the default forum. If the matter involves environment or conservation agreements (Article 104), sanitary or phytosanitary measures (Chapter 7), or standards-related measures (Chapter 9), then the responding party may request the matter be addressed only under NAFTA.

[63] *Submission*, "The Future of Integration in North America," submitted to the Committee during its meeting at the Canadian Embassy in Mexico City, March 14, 2002.

Canada, and Mexico if it so chooses, should at every opportunity choose the multilateral WTO dispute settlement forum for disputes that arise under Chapter 20 of NAFTA.

Recommendation 16

The Government of Canada should work with Mexico to encourage the United States to agree to improve the rules-based foundation of the general dispute settlement mechanism in Chapter 20 of NAFTA. The final reports of arbitral panels should be made automatically legally binding on the parties to the dispute. In the event that such a change is not possible, the Government should strive to make maximum use of the multilateral dispute settlement mechanisms under the WTO for resolving disputes that arise under Chapter 20 of NAFTA.

In addition, the Government should work towards increasing the transparency of the dispute settlement process by releasing all documents relevant to a proceeding, without causing prejudice to companies. The Government should also work toward increasing the openness of the process by enlarging participation beyond the NAFTA states to interested third parties, such as provinces, non-governmental organizations and others.

3. The Trade Remedy Law Bugbear and NAFTA's Chapter 19 Binational Panel Process

In a recent address to the Canadian-American Business Council, International Trade Minister Pierre Pettigrew stated that one of the key goals in building an improved North America is to make "serious efforts to bring trade remedy practice more in line with the growing integration of our shared North American economic space."[64]

The main reason for Canada entering CUFTA, which entailed relinquishing a large measure of Canadian sovereignty, was to secure unhindered access to the U.S. market. The cornerstone of this strategy was to obtain an exemption from the application of U.S. trade remedies — in particular, anti-dumping (AD) and countervailing duties (CVDs) — found in U.S. domestic trade legislation. A brief review of the CUFTA negotiations in the late 1980s reveals why the access that Canada — and later Mexico through NAFTA —gained to the U.S. market under the free trade agreements was far from secure and unhindered. This is perhaps our most significant piece of unfinished NAFTA business.

The U.S. negotiators flatly refused the AD/CVD exemption proposal because they believed Canadian products were being subsidized and that U.S. producers required the protection of its domestic AD/CVD law.[65] The U.S. position on this matter was so entrenched that had Canada persisted, the free trade talks would have ended. Canadian negotiators then suggested that competition legislation replace anti-dumping duties in CUFTA, and that a common code on subsidies be negotiated — including a definition of what constitutes a subsidy — to minimize the use of countervailing duties.[66] These proposals were unsuccessful, as the Americans were unwilling to go beyond the GATT rules at that time and insisted on maintaining their trade remedy laws.[67] The U.S. government vehemently disagreed with Canadian claims that U.S. trade remedy practices were inherently "politicized" — because they were decided solely in U.S. institutions — but to break the deadlock in negotiations, the U.S. put forward an interim solution whereby the existing judicial review of AD/CVDs by *U.S. courts* would be replaced with review by *binational panels* consisting of trade specialists from both countries.[68]

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[64] Pettigrew (October 2002).

During the NAFTA negotiations, Mexico, like Canada under CUFTA, was also seeking "secure" access to U.S. markets — as well as to Canadian markets — and thus fought hard for inclusion in the binational panel dispute settlement mechanism. This was granted on the condition that Mexico significantly amend its trade laws and administrative review processes to make them more explicit and transparent, more in line with Canadian and U.S. laws.[69] Thus, the binational panel system was included in NAFTA as Chapter 19, largely as it had existed in CUFTA. For Canada, maintaining the status quo was in itself a significant victory. Some U.S. politicians viewed the binational panel system as an unacceptable constraint on American sovereignty, and there was considerable U.S. Congressional pressure to downgrade or completely dismantle the Chapter 19 process.[70]

The binational panel system under Chapter 19 has continuously generated voluminous commentary — our hearings for this report being no exception — and has been a key element of several of the major disputes, including those over softwood lumber, agriculture subsidies and steel. Over 80% of the disputes under NAFTA have related to AD and CVD and have thus come under Chapter 19.

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[65] Eric J. Pan, "Assessing the NAFTA Chapter 19 Binational Panel System: An Experiment in International Adjudication," *Harvard International Law Journal*, Vol. 40, Spring 1999, p. 383.

[66] Gilbert R. Winham, "NAFTA Chapter 19 and the Development of International Administrative Law: Applications in Antidumping and Competition Law," *Journal of World Trade*, Vol. 32, February 1998, p. 69.

[67] Michael Hart, *Decision at Midnight: Inside the Canada-U.S. Free Trade Negotiations*, Vancouver, University of British Columbia Press, 1994, cited in Gilbert Gagné, "North American Free Trade, Canada, and U.S. Trade Remedies: An Assessment After Ten Years," *World Economy*, Vol. 23, p. 80. It is noteworthy that the Uruguay Round of trade negotiations creating the WTO produced a common set of rules on subsidies, the *Agreement on Subsidies and Countervailing Measures*. Furthermore, the current Doha Development Round of negotiations is expected to build on this Agreement to include anti-dumping measures, and the United States has agreed to take part in the negotiations. However, in its proposal on dumping and subsidies recently submitted to the WTO, the United States stipulates that any agreement on dumping and subsidies should maintain the effectiveness of domestic trade remedy laws. See "USTR Submits Proposal to WTO on Dumping, Subsidies," U.S. Department of State Office of International Information Programs, Washington File, October 17, 2002, accessed at: usinfo.state.gov.

[68] Winham (1998), p. 69-70.

[69] Ibid., p. 71-74.

[70] Gilbert R. Winham, "Dispute Settlement in NAFTA and the FTA," in Steven Globerman and Michael Walker, eds., *Assessing NAFTA: A Trinational Analysis*, The Fraser Institute, Vancouver, 1993, p. 270.

The success of Chapter 19 in keeping many North American protectionist actions in check is indisputable. Some of the proof of this success is well-documented in the recently released instalment of the C.D. Howe Institute's *Commentary* series, "The Border Papers." The essay, by Washington Trade Lawyer Patrick Macrory, entitled "NAFTA Chapter 19: A Successful Experiment in International Trade Dispute Resolution," makes the case that Chapter 19 "has been quite effective in curbing what Canadians believe to be the overzealous enforcement of AD and CVD laws by U.S. authorities."[71] Macrory notes that "only six Canadian products other than softwood lumber are currently subject to AD and/or CVD orders, and in most cases the volume of trade involved is small and the current duty level low."[72] He also emphasizes that "[s]ince the creation of NAFTA, imports from Canada and Mexico have been subject to far fewer investigations and orders than imports from other parts of the world, perhaps as a result of the increased integration of their economies with that of the United States."[73]

A fundamental feature of the Chapter 19 dispute settlement system is that binational panels do not create or apply new law, nor do they apply trilateral substantive legal rules on AD/CVD (such rules do not exist): they simply review the application of the domestic law of the importing country to ensure it was correctly applied.[74] Thus, in the case of a U.S. attack on Canadian policy, the panel would review the U.S. government agencies' actions to ensure their consistency with U.S. domestic trade law.

Another key feature is laid out in Article 1903 of NAFTA, which specifies that if one party to the agreement makes amendments to its domestic AD/CVD laws and these amendments would affect another party, the affected party can request that the amendments be referred to a binational panel for a declaratory opinion as to whether they conform with the free trade objectives of NAFTA or the provisions of the GATT and the WTO *Agreement on Subsidies and Countervailing Measures*. The existence of this provision holds special relevance in the context of the softwood lumber dispute cases. Box 2 provides a brief overview of the dispute and the particular cases.

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[71] Patrick Macrory, "NAFTA Chapter 19: A Successful Experiment in International Trade Dispute Resolution," *Commentary* No. 168, C.D. Howe Institute, Toronto, September 2002, Study Summary.

[72] Ibid., p. 2. A significant portion of the study is devoted to analysis of the softwood lumber dispute. See also Patrick Macrory, "Another Chapter in the lumber saga," *National Post*, October 10, 2002, p. A19.

[73] Macrory (2002), p. 2.

[74] NAFTA, Article 1902.

Box 2: A Brief Overview of the Softwood Lumber Dispute

Canadian softwood lumber captures one third of the U.S. market and is currently a $10 billion per year export industry for Canada. The softwood lumber dispute dates back to the early 1980s, and since that time the key issue has been whether stumpage fees charged by Canadian provincial governments to private logging companies for the right to harvest timber on provincial land are too low and therefore constitute a subsidy.

About 94% of Canada's forests are publicly owned and subject to extensive forestry regulations. Under the tenure system prevalent in Canada, provinces give private companies access to public timber in exchange for the payment of provincial stumpage fees and for undertaking forest management responsibilities. In the United States, on the other hand, almost 70% of the forest base — accounting for 90% of the annual timber harvest — is held in private hands, and about 42% of the forest lands are under regulations similar to those in Canada.

The American lumber industry — led by its powerful lobby group, the U.S. Coalition for Fair Lumber Imports — and environmental and First Nations aboriginal groups claim that the Canadian system of land tenure and provincial government forestry management practices result in unfair subsidies to the lumber industry. They argue that stumpage fees that do not reflect the full market value of the timber being sold have a distorting effect because they make timber cheaper to cut than would be the case with market-based stumpage fees. They also claim that governments forego substantial forest management revenues by setting below-market stumpage rates.

On the other side of the debate, federal and provincial governments and the Canadian logging industry argue that current timber pricing practices do not generate subsidies to the industry. They claim that the stumpage fees charged are equivalent to a tax, rather than a subsidy, and that the revenues generated more than pay for the costs associated with commercial forestry management. Furthermore, they hold that the forest tenure system in Canada is simply different from that in the United States, and the differences are accentuated by significant contrasts in public-private forest ownership breakdown in each country.

The numerous legal actions that have arisen out of this subsidy debate over the past 20 years are not easy to follow despite the extensive press coverage the softwood lumber dispute regularly receives. Below is a list of the key cases, each of which began with a U.S. Department of Commerce investigation and proceeded to a decision, and a short description of how they have played out and continue to evolve, in the NAFTA and WTO contexts (the cases are commonly identified by Roman numerals for convenience):

- *Softwood Lumber I (Certain Softwood Lumber Products from Canada, 48 Fed Reg 24, 159 [1983]). The U.S. Department of Commerce issued a decision that provincial stumpage was not a subsidy.*

- *Softwood Lumber II (Certain Softwood Lumber Products from Canada, 51 Fed Reg 37, 483 [1986]). The U.S. Department of Commerce issued a preliminary determination that provincial stumpage was a subsidy, but the issue was made moot by a Canada-United States memorandum of understanding under which Canada imposed a 15 % duty on exports to the United States.*

- *Softwood Lumber III (Certain Softwood Lumber Products from Canada, 57 Fed Reg 22, 570 [1992]). The U.S. Department of Commerce found that provincial stumpage and log export restraints were subsidies. The finding was reversed by a Chapter 19 panel decision: Certain Softwood Lumber Products from Canada, USA-92-1904-01 (1993). The panel decision was upheld by a Chapter 19 extraordinary challenge committee: Certain Softwood Lumber Products from Canada, ECC-94-1904-01USA (1994).*

- *Softwood Lumber IV (Certain Softwood Lumber Products from Canada, 67 Fed Reg 15, 545 [April 2, 2002] and 67 Fed Reg 15, 539 [April 2, 2002]). The U.S. Department of Commerce found that provincial stumpage was a subsidy and that softwood lumber was being dumped in the United States. The decisions are now on appeal to Chapter 19 panels and the WTO Dispute Settlement Body.*

Key Sources: Patrick Macrory, "NAFTA Chapter 19: A Successful Experiment in International Trade Dispute Resolution," Commentary No. 168, C.D. Howe Institute, Toronto, September 2002; "Canada's Legal Challenges" page at the Softwood Lumber section of the Web site of the Department of Foreign Affairs and International Trade. www.dfait-maeci.gc.ca/~eicb/softwood/legal_action-en.asp.

In 1994, the United States lost another of its many challenges to Canadian softwood lumber pricing and allocation policies under the CUFTA binational panel system. Following this panel decision in favour of Canada, which occurred just as the United States was preparing its WTO implementation legislation, the U.S. government seized the opportunity and amended its trade remedy legislation to reverse the most controversial aspects of the binational panel's decision. Canada criticized the U.S. legislation with respect to its implementation of the results of the Uruguay Round of international trade negotiations, but surprisingly did not resort to Article 1903 of NAFTA and request a declaratory opinion on the conformity of the amendments with international trade rules. Commentators have suggested this is an indication of the weakness of the Chapter 19 rules, as the Canadian government may have assumed that a binational panel declaratory opinion would taint future Canada-U.S. relations and that the United States would simply disregard it.[75]

Prior to CUFTA, any AD/CVD disputes originating in the United States were decided by U.S. agencies, and the only internal avenue of appeal was resort to judicial review of the governmental decisions by domestic courts. Chapter 19 binational panels now replace this judicial review process. The panels consider the record of the case and decide whether the final determination of the government agency is supported by evidence and is in accordance with domestic law. It is noteworthy, and has been problematic for Canada, that only the *final* AD/CVD determinations of domestic agencies can be reviewed through the binational panel process.

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[75] Gagné (2000), p. 87-88.

For example, on August 9, 2001 the U.S. Commerce Department issued a *preliminary* subsidy determination in its most recent countervailing investigation of Canadian softwood lumber.[76] Based on this preliminary determination, on September 4, 2001 the United States began collecting CVDs at the border on Canadian softwood lumber, retroactive to May 17, 2001. However, the final determination of the U.S. Commerce Department was not published until April 2, 2002, and it was only at this point that Canada could request a NAFTA binational panel review of the decision. Thus, Canadian producers were required to pay CVDs for almost a year before the binational panel process even began. In response to a question from a Committee member about how Canadian producers go about getting that money returned, Bob Flitton of Doman Industries Limited replied: "How do you get it back? You don't get it back. ... Legally, technically, you should be able to go and get it back, but you'll never collect it. It's lost."[77]

Recommendation 17

When a NAFTA binational panel finds that the final determination by a government agency to impose anti-dumping or countervailing duties was in error, all duties should be repaid by the domestic authority to the foreign exporter. The Government of Canada should therefore propose to its NAFTA partners a formal system for the repayment of all duties, retroactive to the date set by any preliminary and/or final determination imposing duties.

Although it is still the domestic law that is being applied under Chapter 19, the binational panel process was intended to be more transparent — given that each country supplies panellists — and also faster, because Chapter 19 specifies that a final decision should be rendered within 315 days from the date when the request for a panel is made.[78] Panels are composed of five persons selected from a roster for which each country has chosen at least 25 candidates, a majority of whom must be practising or retired lawyers or judges.[79] Each country that is party to a dispute chooses two panellists, who then choose the fifth together; traditionally the fifth panellist has alternated between countries from dispute to dispute. The panel is limited to the administrative record before it and must use the standard of review of the domestic law in question. While panel decisions are binding on the parties to the dispute in question, they do not create law and cannot serve as binding precedents for other cases. Panels may uphold, overturn or remand the determinations of the domestic authorities. A panel decision may be appealed to an Extraordinary Challenge Committee (ECC), though only with respect to serious procedural violations by the panel or a panellist.[80] Furthermore, the ECC cannot set aside a decision unless it finds that the procedural error "materially affected the panel's decision and threatens the integrity of the binational panel review process."[81]

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[76] Department of Foreign Affairs and International Trade "Softwood Lumber U.S. Trade Actions: Chronology & Background (2001 to present)," May 24, 2002.
Available at: www.dfait-maeci.gc.ca/~eicb/softwood/SWL_TradeActionsBackground-e.htm.

[77] *Evidence*, Meeting No. 78, May 7, 2002.

[78] NAFTA, Article 1904(14).

[79] NAFTA, Annex 1901.2, Articles 1-2.

Is the binational panel review process under Chapter 19 of NAFTA working? In addition to the above-noted endorsement by Patrick Macrory, the Committee heard generally positive assessments of the Chapter 19 track record to date. Danielle Goldfarb of the C.D. Howe Institute felt that it "has provided a reasonably good check on the overzealous use of U.S. trade remedy laws. Many practitioners have noted that rulings under the Chapter 19 mechanism have been based on law rather than politics."[82] Laura Macdonald of Carleton University was not optimistic about Canada getting a better mechanism in the North American context "just because the United States is so dominant in North America, it's the hegemon of the region, and obviously doesn't want to set up more adequate mechanisms or include issues like softwood lumber that are very politically difficult. So I would tend to think, ... it might be better to rely on WTO mechanisms, rather than expecting a better mechanism in North America."[83] While others also suggested relying more on WTO mechanisms, Donald MacKay, who was a NAFTA negotiator for Canada and is currently with the Canadian Foundation for the Americas (FOCAL), compared the WTO and NAFTA processes and highlighted the unparalleled efficiency of the latter:

> ... when discussing dispute settlement, what you're essentially saying is that governments or countries are voluntarily giving up a small portion of their sovereignty in respect of their ability to make decisions internally unilaterally. Chapter 19 multilateralized that, if you will, to the three parties with binational panels. No such mechanism with respect to anti-dumping and countervailing duties exists in the WTO. In the Uruguay round of negotiations there was an updating of the dispute settlement mechanism within the WTO, but with the timelines, cost factors, all of those sorts of categories, if you match them out between the NAFTA mechanism and the WTO mechanism, you will find that the NAFTA mechanism is more rapid. Even though it is, to many parties, too slow, it is faster than anything that exists out there at the multilateral level. It can obviously be improved, but that requires a movement on the political side.[84]

The Committee heard that the only way to truly solve any shortcomings of the Chapter 19 process would be to find a way to get beyond the protectionist reach of U.S. AD/CVD laws. Don Barry of the University of Calgary felt the dispute settlement process was working "reasonably well."[85] The real problem, he argued, is the lack of uniform trade laws. Michael Bradfield of Dalhousie University felt that it was fine to "have access to dispute resolution mechanisms that allow us to have our say about whether they are applying their laws properly, but that doesn't prevent them from putting in anti-free-trade laws, which they have on the books now, and which they're quite prepared to put on the books again."[86] A lasting solution, he argued, would be for the United States "to really make its internal legislation consistent with free trade." Similarly, Stephen Clarkson described the major failure of CUFTA and NAFTA as the fact that Canada, and Mexico with respect to the latter, did not get exemptions from the AD/CVD laws of the United States.[87]

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[80] NAFTA, Article 1904(13), Annex 1904.13. The Committee is composed of a judge or former judge from each country, chosen by the parties to the dispute from a 15-person roster (comprising five persons from each country).

[81] NAFTA, Article 1904(13)(b).

[82] *Evidence*, Meeting No. 77, May 7, 2002.

[83] *Evidence*, Meeting No. 88, June 6, 2002.

[84] *Evidence*, Meeting No. 88, June 6, 2002.

While the Chapter 19 binational panel system is in many ways a rules-based dispute settlement system, it is based on a hybrid set of substantive law: the domestic anti-dumping and countervail law of Canada, Mexico, and the United States. Furthermore, while the rules tend to work most of the time, it is the highly politicized disputes involving major economic interests — such as the softwood lumber dispute — that highlight the shortcomings of the Chapter 19 system and its inevitable susceptibility to political motives. The Committee supports the use of the NAFTA system — and the WTO system where appropriate — but is persuaded that the best way to prevent and resolve disputes would be to have a single set of North American AD/CVD rules in place.

During the CUFTA negotiations, it was understood that the binational panel system was to be a temporary measure that would be effective for five to seven years pending the development of a new, common AD/CVD regime.[88] Furthermore, Article 1907 of CUFTA called for the parties to set up a working group to develop more effective rules and disciplines concerning the use of government subsidies and the potential for reliance on a substitute system of rules for dealing with unfair transborder pricing practices and government subsidization. The development of this new regime by the working group went nowhere. Under NAFTA, the binational panel system became permanent. The working group was dropped, and instead the parties agreed to regular, general consultations on a new AD/CVD regime. The Committee feels these consultations should be vigorously pursued by the Canadian government with a view to actively engaging Mexico and the United States on the development of a North American AD/CVD regime.

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[85] *Evidence*, Meeting No. 80, May 8, 2002.

[86] *Evidence*, Meeting No. 59, February 26, 2002.

[87] *Evidence*, Meeting No. 77, May 7, 2002.

[88] Article 1906 of CUFTA explicitly embodies this intention: "The provisions of this Chapter shall be in effect for five years pending the development of a substitute system of rules in both countries for antidumping and countervailing duties as applied to their bilateral trade. If no such system of rules is agreed and implemented at the end of five years, the provisions of this Chapter shall be extended for a further two years. Failure to agree to implement a new regime at the end of the two-year extension shall allow either Party to terminate the Agreement on six-month notice."

We are well aware that given the protectionist bent of the current U.S. administration, such consultations may not go very far, if anywhere. And we take the point of Patrick Macrory in his Chapter 19 study, that even modest steps to alleviate the impact of U.S. trade remedy laws may be unrealistic in the current climate. However, we feel it is important to keep the issue in the forefront and on the minds of policy-makers, and thus to address it directly whenever possible.

Recommendation 18

The Committee supports the ongoing use of the Chapter 19 binational panel review procedure — and, where appropriate, the WTO dispute settlement system — and recommends that the Government of Canada continue to pursue *all* possible legal avenues for the efficient resolution of current trade disputes, especially the softwood lumber dispute.

Recommendation 19

Taking into account similar negotiations currently underway in the WTO forum, the Government of Canada should vigorously pursue consultations with Mexico and the United States under Article 1907 of NAFTA in order to actively engage them in the development of a common North American anti-dumping and countervail regime.

4. To Link or not to Link?

The question of whether or not to link one trade sector with another — for example, using Canada's energy resources as leverage in the softwood lumber dispute — was addressed by several witnesses before the Committee. The issue has arisen most prominently in the softwood lumber dispute where there have been aggressive calls by stakeholders — such as John Allan, President of the B.C. Lumber Trade Council — to link our trade with the United States in softwood lumber to exports of other commodities as a way of resolving the bitter dispute.[89]

Most witnesses, however, were extremely cautious of linking sectors. Professor Don Barry of the University of Calgary thought the possibility of any "trade-offs" with the United States would be very limited in the midst of the current "war on terrorism," which when coupled with "a very narrow and circumscribed view of American interests" indicates that "[i]t is really U.S. domestic politics that will determine the outcome of a whole range of economic issues that are on the table between Canada and the U.S. at this time."[90] Harvard University's Joseph Nye honed in on the underlying, recurring reality of the obvious power asymmetries that exist in the NAFTA relationship:

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[89] See Gordon Hoekstra, "Time to get tough with Americans in lumber fight," *The Prince George Citizen*, May 31, 2002, p. D4.

[90] *Evidence*, Meeting No. 80, May 8, 2002.

> I would be a little bit suspicious of linkage, because you might say we'll link gas or we'll link water to this, then the Americans may link something even bigger. So before you get it all wrapped in one ball of wax, you ought to ask, is that the best strategy for Canada? I suspect probably not.[91]

Using linkage as a form of retaliation was also strongly discouraged. Professor George MacLean of the University of Manitoba agreed that domestic U.S. politics play too great a role in the Canada-U.S. relationship — which he described as a "tenuous" one — to risk retaliation through linkage.[92] Using the softwood lumber dispute as an example, he noted that

> [t]hrowing a sector that works, such as gas, into that and saying we're going to use this in retaliation could be a tremendously risky thing indeed, especially if the Americans were to say they are willing to actually fly in the face of WTO rulings or NAFTA tribunal rulings on this issue of softwood lumber for political reasons, for strictly political reasons. If they're willing to do that, what would they be willing to do in terms of other sectors?

Similarly, Donald MacKay of the Canadian Foundation for the Americas (FOCAL) noted that for a country as "trade-oriented" as Canada, using retaliation "inevitably winds up hurting us more than it helps us."[93]

The Committee agrees. Linkage for the purposes of dispute settlement or retaliation is simply too risky, given the obvious power differentials that Canada and Mexico have with the United States. In devising prudent and effective Canadian strategies for countering U.S. protectionist actions, Canada should focus on addressing each dispute on its own terms within a rules-based framework.

Recommendation 20

The Government of Canada should generally refrain from linking different trade sectors as a strategy for retaliation or dispute resolution. Canada should focus on addressing each dispute on its own terms, and within a rules-based framework.

C. Addressing the NAFTA Chapter 11 Controversy

"'Chapter 11' is a well-known phrase in the United States: it is the term used when someone seeks court protection to avoid an impending bankruptcy. But under the North American Free Trade Agreement — NAFTA — Chapter 11 has another meaning. It is the part of NAFTA that deals with the protection of foreign investors from Canada, Mexico and the United States when they invest in one of the other NAFTA countries. For some, Chapter 11 is a vital requirement in promoting the free flow of capital in an increasingly open North American market. For others, Chapter 11 represents another kind of

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[91] *Evidence*, Meeting No. 74, May 2, 2002.

[92] *Evidence*, Meeting No. 75, May 6, 2002.

[93] *Evidence*, Meeting No. 88, June 6, 2002.

bankruptcy — the bankruptcy of public policy and international law-making in the era of economic globalization."

Howard Mann, *Private Rights, Public Problems: A Guide to NAFTA's Controversial Chapter on Investor Rights*, International Institute for Sustainable Development and World Wildlife Fund, Winnipeg, 2001, p. 1.

Chapter 11 of NAFTA has proved to be one of the most controversial aspects of the Agreement. Whether the controversy is justified, or whether criticisms of Chapter 11 are grounded in substantive analysis, are common discussion points among commentators. In fact, substantive analyses of the provisions and their effects exist on both sides of the argument.[94] The issue is not so much the credibility of the interlocutors and their arguments, because the investor-state cases handled to date under the arbitral process set up under Chapter 11 largely speak for themselves,[95] and any interpretation of them depends primarily on one's opinion on the larger underlying issue. The issue is simply one of policy: how to balance investment protection, including the corollary rights of private investors, with public control over governmental policy making. The mere fact that Chapter 11 has generated so much widespread commentary — whether based on deep analysis or pure emotion — indicates that something is seriously wrong with the status quo and signals pressing unfinished business within the NAFTA framework. Our hearings emphatically confirmed this message.

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[94] For samples of such analyses, see Howard Mann, *Private Rights, Public Problems: A Guide to NAFTA's Controversial Chapter on Investor Rights*, International Institute for Sustainable Development and World Wildlife Fund, Winnipeg, 2001; and Michael M. Hart and William A. Dymond, "NAFTA Chapter 11: Precedents, Principles, Prospects," paper presented at the NAFTA Chapter 11 Conference, Centre for Trade Policy and Law, Carleton University, Ottawa, January 18, 2002.

[95] For summaries of Chapter 11 cases, see Mann (2001) and Hart and Dymond (2002). As well, the legal proceedings from many cases are available from Canada's Department of Foreign Affairs and International Trade website www.dfait-maeci.gc.ca/tna-nac/NAFTA-e.asp.

WHAT WITNESSES SAID

... the corporations that wish to limit the power of governments to regulate them are the large corporations that, virtually by definition, have economic power that takes them out of the perfectly competitive scenario of economic textbooks and gives them the power to work in their own interest without aiding at the same time the public interest. The fundamental bottom line, then, is that the corporations that most want more powers, particularly power over government, and that want less responsibility towards government are the very corporations that violate the conditions under which a government can grant a corporate charter assuming that the corporation will serve the public interest. The conclusion, then, is that rather than getting into trade agreements where we grant more and more power to corporations to sue governments if the government enacts an environmental or health legislation that takes profits — or potential profits — away from corporations, we should not be allowing corporations to do that. We need in fact, with growing power from the corporations, if anything, to enhance the power of the state to control the creatures that the state in fact has created.

Michael Bradfield, Dalhousie University,
Evidence, Meeting No. 59, February 26, 2002.

... Chapter 11 has so far been a chapter whose reputation has far outrun the reality of the decisions that have been made by various panels and tribunals.

Michael Hart, Carleton University,
Evidence, Meeting No. 55, February 5, 2002.

... the language was broadened when we moved to NAFTA, largely because of concerns about expropriation of foreign investment that might occur within Mexico. Because of that, some of the language was made perhaps too broad. In fact, what a lot of individual companies are doing is challenging domestic laws by making an argument that the cost of compliance with those laws, even if the laws are non-discriminatory and they're enacted for valid public purposes, is tantamount to expropriation. Some of the NAFTA adjudication panels have agreed with that argument and have required that compensation be paid to companies. That's quite troubling to me, partly because domestic producers who are affected by those same standards don't necessarily have a claim to compensation. The compensation could be expensive, but more importantly, that could create a regulatory chill. We may be reluctant to pass some of the kinds of laws that are needed for environmental or public health reasons if we fear that down the road it's going to cost us millions or billions of dollars in compensation.

Kathryn Harrison, University of British Columbia,
Evidence, Meeting No. 76, May 6, 2002.

The dispute settlement mechanisms set up in exchange or as a kind of recompense have on the whole been very disappointing, and let's not forget to mention the innovation of investor-state dispute settlement in Chapter 11 of NAFTA. This is now a notorious institution, one that has caused a very high level of dismay among major NGOs in this country as well as in the U.S. and Mexico. Institutionally, the big idea did not just fail, it had a sleeper in it. In 1993, when NAFTA was being debated, this investor-state dispute settlement was virtually invisible. I think it's pretty clear from research that our negotiators didn't understand its significance, the public didn't understand it, and I don't think the government understood it.

Stephen Clarkson, University of Toronto,
Evidence, Meeting No. 77, May 7, 2002.

In many respects I see what my parents built being destroyed, and I put a lot of the blame on our systems of international tribunals and speculators who make decisions that have an impact on me. And I have absolutely no ability to influence them. I have to ask, who is on my side? Who is really standing up for my community? Is there anybody out there who will take on powerful international capital, that has an agenda not consistent with what I believe we should be pursuing in this country?

Wayne Samuelson, Ontario Federation of Labour,
Evidence, Meeting No. 79, May 8, 2002.

The trouble with Chapter 11, it seems, is it's really not very transparent. It has to be reformed. We think of it in Canadian terms, but Canada also has substantial investments in the United States. We may have to avail ourselves of some similar provision to Chapter 11 too, but I think it has to be reformed to make it more transparent. I think the rules have to be more clearly specified. Not only corporations but certain interest groups should have access to that process as well. ... It's not open. The point is, I think it needs to be updated. It needs to be made transparent, and more people have to have access to it.

Don Barry, University of Calgary,
Evidence, Meeting No. 80, May 8, 2002.

There have been a huge number of investments that have proceeded without any problem whatsoever, and without resorting to disputes. It's just like the 95%-plus of our trade with the United States that proceeds without problem: you never hear about that. But you do hear about the thorny issues that remain. There are moves under way to clarify and to have more precision in how these agreements are to work. I get this from several sides, because I also run a committee of Canadian arbitrators who have been involved with Chapter 11. I hear this from the arbitrators' side, and some of their concerns are that they're not being left to do their job. This can be an issue for another discussion on another day, because it's a long, involved discussion, but there are many issues involved in this. This is not a simple, straightforward situation.

Robert Keyes, Canadian Chamber of Commerce,
Evidence, Meeting No. 89, June 11, 2002.

In the Methanex case we're talking about a balancing of the right of the investor to an expected return on his investment against the rights of the public to a clean environment and to health and safety. This is the kind of balancing that goes on every day in normal government bodies, and we have a number of complex institutions set up to do that kind of balancing in every government in every industrialized country in the world. But that kind of balancing cannot be done adequately by an institution that has no legitimacy, no transparency, and no accountability. I'm certain that this is what we have now in the arbitration procedures under NAFTA Chapter 11. They are fundamentally unsuited to do a balancing of anything other than commercial objectives, and therefore I applaud Robert Pastor's suggestion that we need a court specifically set up in the North American context to do that kind of balancing. It's obvious that we're going to get into these problems in the Chapter 11 provisions. ... [W]hen we are dealing with questions beyond simple commercial arbitration, which we find ourselves doing over and over again under Chapter 11, it is not sufficient to have an institution without legitimacy, accountability, or transparency dealing with those.

Aaron Cosbey,
International Institute for Sustainable Development,
Evidence, Meeting No. 80, May 8, 2002.

1. How Chapter 11 Works

The aim of Chapter 11 is to liberalize and promote investment, especially foreign direct investment, by creating a rules-based framework that protects the investment interests of foreign investors from discriminatory or trade-distorting acts by the government of the host country where the investment is made. Such rules are nothing new. They have evolved out of bilateral investment treaties (BITs) — known as foreign investment protection agreements (FIPAs) in Canada — largely initiated by the United States in the late 1970s to protect American investments from political, economic and legal instability in foreign countries.[96] Chapter 11 is unique because it builds on this objective in several respects: it promotes the general liberalization of international investment, and it does so by being part of a larger trade and investment agreement — NAFTA — thus enhancing the probability of its provisions being broadly interpreted.

The most controversial part of Chapter 11 has been the investor-state dispute settlement process, which enables a private foreign investor to bring an arbitral claim against its NAFTA government host for an action the investor believes has decreased its profits or expected profits. Article 1110 of Chapter 11 states that a NAFTA government may not take measures "tantamount to nationalization or expropriation" of an investment unless it does so for a public purpose, on a non-discriminatory basis, in accordance with due process of law, and only if it pays compensation to the foreign investor.

The arbitral process is governed by international commercial arbitration rules.[97] The investor and the government each choose one arbitrator, and the third is chosen together or by a neutral third party. The results of the arbitration are binding on each party, and there are limited provisions for review or appeal of such awards. The actual arbitration proceedings are closed to the public unless the parties agree that they be open. (This has not occurred to date.) On July 31, 2001, the NAFTA Free Trade Commission released *Notes of Interpretation of Certain Chapter 11 Provisions*. These attempt to improve the transparency of the Chapter 11 processes and the clarity of application of the rules.[98] Under the *Notes*, each country agreed to make publicly available all documents submitted to or issued by a Chapter 11 tribunal, with the following exceptions:

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[96] Kenneth Vandeveld, *United States Investment Treaties: Policy and Practice*, Law and Taxation Publishers, Boston (Mass.), 1992, p. 22, cited in Aaron Cosbey, "NAFTA's Chapter 11 and the Environment," Briefing Paper for the Joint Public Advisory Committee of the Commission for Environmental Cooperation, Ottawa, June 17-18, 2002.

[97] The investor may choose either the rules under the International Centre for Settlement of Investment Disputes (ICSID) — administered under the aegis of the World Bank — or the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL).

[98] These *Notes* are accessible at the following page of the Department of Foreign Affairs and International Trade website: www.dfait-maeci.gc.ca/tna-nac/NAFTA-Interpr-e.asp.

- confidential business information;
- information that is privileged or otherwise protected from disclosure under the State's domestic law; and
- information that the state must withhold under the applicable arbitral rules.

However, as John Foster of the North-South Institute notes in his forthcoming assessment of NAFTA, "critics quickly pointed out that lacking actual amendment of the treaty, international arbitration rules would prevail, and that 'the regime of secrecy provided for by the arbitral rules is both explicit and clear.'"[99]

2. Witness Perceptions of Chapter 11

A repeated message the Committee received from witnesses was that Chapter 11 requires reform. For example, Stephen Clarkson of the University of Toronto argued that the significance of Chapter 11 was not fully understood by the negotiators of NAFTA, and certainly not by the public.[100] As he writes in a new book on Canada-U.S. relations, because of the "supraconstitutional" effect of Chapter 11, "the issue is no longer which order of government — federal or provincial — *should* initiate a regulation. It becomes whether either order of government *can* initiate such legislation at all."[101] Lawrence McBrearty of the United Steelworkers of America claimed that NAFTA protects corporate investor rights but does not provide equally solid protection for labour, environmental or human rights.[102]

Various commentators we heard from in Mexico City — including Professor Maria Teresa Gutierrez Haces and Professor Isidro Morales, both of the Universidad Nacional Autónoma de México, and Luis Tellez Kuenzler of the DESC Group — also felt that problems with Chapter 11 had to be resolved so that governments could effectively stand up to corporate pressures. Antonio Ortíz Mena of the Centro de Investigación y Docencia Económicas in Mexico City proposed that the three countries conclude a memorandum clarifying the scope and coverage of Chapter 11 with respect to environmental issues.[103]

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[99] Foster, p. 10 of pre-publication draft.

[100] *Evidence*, Meeting No. 77, May 7, 2002.

[101] Stephen Clarkson, *Uncle Sam and Us: Globalization, Neoconservatism, and the Canadian State*, University of Toronto Press and Woodrow Wilson Press, Toronto, 2002. In a recent discussion paper, Trade Lawyer Jon Johnson highlights the potential reach of trade agreements and makes the comment that Canada's medicare would never have become a reality had NAFTA existed before the Canadian system of healthcare was nationalized. See Brian Laghi, "NAFTA could increase health costs, study says," *The Globe and Mail*, September 28, 2002, p. A8.

[102] *Evidence*, Meeting No. 77, May 7, 2002.

[103] *Submission*, "The Future of Integration in North America," submitted to the Committee during its meeting at the Canadian Embassy in Mexico City, March 14, 2002.

Aspects of Chapter 11 directly targeted for serious reform included: transparency, accessibility, long-term implications for natural resources, and the "regulatory chill" effect. Don Barry of the University of Calgary argued that the rules should be more clearly specified and that interest groups should have standing to participate in the process, to balance the influence of corporate interests.[104] Jack Harris, the Leader of the New Democrat Party for Newfoundland and Labrador, highlighted the Chapter 11 claim that Sunbelt Water Inc. of California has brought against Canada because of the cancellation by the British Columbia government of a licence to export bulk water.[105] He explained that the Newfoundland and Labrador government had received differing legal opinions on the export of bulk water: Canadian lawyers concluded bulk water exports by one province would not create a NAFTA-enforceable precedent with respect to other provinces, while an American lawyer stated that they would.

Aaron Cosbey of the International Institute for Sustainable Development argued that there is "no alternative to reform" and used the ongoing *Methanex* v. *United States of America* case to provide a concrete example of the potential for Chapter 11 to cause a "regulatory chill" for governments:

> ... a Canadian company, Methanex, is suing the United States over a regulation propounded by the government in California that bans a gasoline additive that the government has reason to believe is a carcinogen and has been found to be leaking in great quantities into California's groundwater. That sort of regulation would normally be thought of as undertaken in the proper domestic capacity of government, and would not normally, according to the international tradition, be thought of as an expropriation. It's what's called at the international legal level a police powers measure. However, there is no explicit carve-out in the NAFTA Chapter 11 for police powers; therefore, Methanex as well as several other companies have decided to try the system and assert that this sort of regulatory measure, which has a visible, palpable impact on their investment, is an expropriation and is compensable. In this case, they're asking for just under $1 billion Canadian compensation. The money itself is not really the big problem here. The problem is their objective to try to freeze that sort of regulatory action, not only in California, but in the other states in the United States that are proposing it.[106]

Others argued that when critically assessing Chapter 11, its benefits must not be overlooked. Michael Hart of the Centre for Trade Policy and Law (CTPL) at Carleton University has written extensively on Chapter 11 and feels that the criticisms of its track record and its effects on governmental ability to make policy have been blown out of proportion.[107] Nonetheless, he and William Dymond, Executive Director of the CTPL, in the paper they presented at a January 2002 CTPL conference on Chapter 11, list several suggestions for reform, including clarification of its scope, increasing transparency, and setting up a permanent tribunal to deal with Chapter 11 claims.[108] Robert Keyes of the Canadian Chamber of Commerce echoed the theme first noted at the beginning of this chapter, that the majority of trade and investment activity under NAFTA occurs without any problems. He acknowledged that there is a need for clarification of the workings of Chapter 11 but urged the Committee to consider its investment protection benefits and give it more of a chance to prove itself:

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[104] *Evidence*, Meeting No. 80, May 8, 2002.

[105] *Evidence*, Meeting No. 58, February 25, 2002.

[106] *Evidence*, Meeting No. 80, May 8, 2002.

[107] See Hart and Dymond (2002), p. 18-21.

> I would hope that in this discussion over Chapter 11 we do not lose sight of basic principles of investor protection, of non-discrimination, and of fair treatment. That's what underlies investor protection mechanisms, be they in bilateral agreements, of which Canada has twenty-some-odd; be they in NAFTA; be they, as they're going to be, considered in terms of so-called Singapore issues within the Doha round. The fundamental core is to protect the rights of investors, and if we want to attract investors and we want Canadian investors to be abroad — and you'll have seen the recent statistics on just how much Canadian investment there is abroad — then these investors have to be assured they're going to get fair treatment. Chapter 11 gets blamed for virtually everything, something I don't agree with. It is a mechanism where I think the jurisprudence is still being written. As with any law and any mechanism, I think we're still finding the boundaries.[109]

The Committee agrees that protection for foreign investors is an important element of liberalized trade and the promotion of foreign direct investment. However, the Committee is convinced that there are serious problems with the existing Chapter 11 of NAFTA, in particular the investor-state dispute settlement process. These concerns are not new to us. In recent reports on the World Trade Organization and on the Free Trade Area of the Americas, we recommended that investor-state provisions should be excluded from any new agreements. Our opinion has not changed, and in keeping with these recommendations we feel that consideration should be given to a complete review of Chapter 11 of NAFTA, especially the investor-state process.

We are encouraged by the recent policy shift of the United States with respect to the protection of American companies from foreign expropriation under investment provisions like those of Chapter 11. In bilateral trade negotiations with Chile and Singapore, the United States is attempting to narrow the scope of what is considered an expropriation.[110] For example, the U.S. proposal on investment provisions states that a "mere diminution" in the value of an investment does not constitute an expropriation. In the ongoing Methanex case, the company is arguing that it does. Crafted to respond to congressional and environmental lobby criticisms of Chapter 11, this policy shift indicates the United States would likely be willing to reassess aspects of Chapter 11. The Committee sees this as an opportunity for Canada — and Mexico — to propose action on a key piece of unfinished business within the NAFTA framework.

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[108] Ibid., p. 21-25.

[109] *Evidence*, Meeting No. 89, June 11, 2002.

[110] "Administration Proposes Higher Thresholds for Investor Suits," *Inside U.S. Trade*, Vol. 20, No. 39, September 27, 2002, p. 1; see also Edward Alden, "U.S. does about face on expropriation," *National Post*, October 2, 2002, p. B1.

Recommendation 21

In light of the United States' recent policy change with respect to aspects of Chapter 11 of NAFTA, the Government of Canada should review as soon as possible with Mexico and the United States elements of Chapter 11 that have proved problematic, in particular the investor-state provisions.

D. Evaluating the State of Trade-Related Environmental and Labour Cooperation

The genesis of the side agreements to NAFTA on the environment and labour was primarily a result of U.S. political machinations that occurred after the main NAFTA agreement had been concluded in August 1992. Responding to the calls of environmental groups and labour unions that were furious because NAFTA did not address their concerns, presidential candidate Bill Clinton declared on October 4, 1992, that "he could support NAFTA only if it were accompanied by two supplemental agreements on environmental protection and labour issues. The purpose of the supplemental agreements, according to Governor Clinton, would be to 'require each country to enforce its own environmental and worker standards.'"[111] In 1993, the North American Agreement on Environmental Cooperation (NAAEC) and the North American Agreement on Labour Cooperation (NAALC) were finalized.

1. Environmental Cooperation

The NAFTA environmental experience is in many ways a model for the world because it weds trade with environmental considerations in a revolutionary way. There is no question that more could have been done in both NAFTA and the NAAEC to address environmental priorities, but the NAFTA example is an important start. A recent compilation of in-depth essays on the NAFTA environmental experience, *Greening the Americas: NAFTA's Lessons for Hemispheric Trade*, provides a lucid and valuable overview of how the lessons from NAFTA can be used in future trade negotiations — on the Free Trade Area of the Americas, for example — to advance both economic integration and environmental protection.[112]

Of the existing NAFTA institutions, the North American Commission for Environmental Cooperation (CEC) created by the NAAEC is the most "institutionalized" in its design. This point was emphasized by its Executive Director, Janine Ferretti, who offered a rough comparison of the CEC, the NAFTA Free Trade Commission, and the North American Commission for Labour Cooperation:

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[111] Pierre Marc Johnson and André Beaulieu, *The Environment and NAFTA: Understanding and Implementing the New Continental Law*, Island Press, Washington (D.C.), 1996, p. 30-31.

[112] See Carolyn L. Deere and Daniel C. Esty, eds., *Greening the Americas: NAFTA's Lessons for Hemispheric Trade*, The MIT Press, Cambridge, (Mass.), 2002.

> You have the Free Trade Commission, which doesn't have a body or a secretary in one place; it's made up of sections of the three governments that get together and work together. So it's a virtual organization in that regard. The second institution is the Commission for Labour Cooperation, and it's a little bit of both. It has a secretariat based in Washington, but it also has very much engaged sections of the three labour departments, which meet and actually carry out some of the tasks we would do at the secretariat. So the Commission for Environmental Cooperation has probably the most personality of an international organization among the three. It has its headquarters here [in Montreal], we have a staff of 60 people from three countries, we have a liaison office, and the secretariat executes the work program of the commission. The work program is approved by the three governments.[113]

The CEC Council is made up of cabinet-level representatives from the three governments, who meet at least annually. There is also a Joint Public Advisory Committee with five non-governmental members from each country, who work together — though independently of their governments — to provide advice to the Council. Article 14 of the NAAEC enables individuals and non-governmental organizations to submit a complaint that one of the countries is not enforcing its environmental law. If the complaint meets with the criteria in Article 14, the CEC may further investigate by preparing a detailed factual record, and the Council may, by a two-thirds vote, then make the factual record public. Since 1995, 35 submissions have been made under Article 14 and three factual records made publicly available.[114]

The NAAEC also contains dispute settlement provisions essentially consisting of: first, consultations between the disputing parties; second, a special session of the Council; third, the convening of an arbitral panel; and fourth, the imposition of sanctions. To date, these dispute settlement procedures have not been used. In testimony before the Committee in 2001, environment and trade law expert Pierre Marc Johnson described the implications of using them:

> These provisions have not had to be applied up to now because they're pretty tantamount to a nuclear "press the red button." If you say you're going to challenge a country's behaviour, when it comes to implementing its own environmental legislation, by saying that it is systematically not doing its job, you're pretty close to a declaration of commercial war here before you go to sanctions.[115]

Both Janine Ferretti and Pierre Marc Johnson described how the NAAEC and the CEC have assisted with Mexican environmental infrastructure capacity-building. Ms. Ferretti emphasized, however, that Mexico "is going to have a very difficult time being a full and equal partner in NAFTA unless it has its environmental infrastructure in place and it can deal with the vulnerabilities that might occur."[116] She noted that Mexico's cooperation is crucial in dealing with certain environmental problems — such as long-range transport of atmospheric pollutants — that are important to, but beyond the control of, Canada and the United States. Kathryn Harrison of the University of British Columbia spoke of how the CEC has played a critical role in facilitating Mexico's recent decision to create a toxic release inventory modelled on the inventories in Canada and the United States and the CEC's own North American Pollutant Release and Transfer Register.[117]

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[113] *Evidence*, Meeting No. 62, February 27, 2002.

[114] For details on the status of all submissions, see the following page of the CEC website: www.cec.org/citizen/status/index.cfm?varlan=english.

[115] *Evidence*, Meeting No. 5, March 22, 2001.

Witnesses generally pointed to the CEC as an example of an institutional model that is working well and that should be given more financial resources for its activities,[118] but which also needs greater enforcement powers. Laura Macdonald of Carleton University's Centre for North American Politics and Society spoke of the need to better address both social and economic disparities that have accompanied North American integration to date.[119] She called for "stronger enforcement powers" and "more funding" for the CEC. Daniel Schwanen suggested that the CEC could play a "very useful role in the area of integration" by providing a successful example of how trilateral cooperation and decision making can work in practice.[120]

The Committee agrees that adequate resources and enforcement powers are key to building on the successes of the CEC. We find it extremely troubling that powerful enforcement tools are available to private investors under Chapter 11 of NAFTA, while the dispute settlement mechanism under the NAAEC, which is aimed at environmental protection for the public good, is so politically sensitive that it is never even used.

Recommendation 22

The Government of Canada should discuss with its Mexican and American counterparts ways to ensure adequate funding and enforcement powers for the North American Commission for Environmental Cooperation created under the North American Agreement on Environmental Cooperation.

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[116] *Evidence*, Meeting No. 62, February 27, 2002.

[117] *Evidence*, Meeting No. 76, May 6, 2002.

[118] The CEC has a total annual budget of US$9 million, with equal contributions made by each government.

[119] *Evidence*, Meeting No. 88, June 6, 2002.

[120] *Evidence*, Meeting No. 64, February 28, 2002.

2. Labour Cooperation

The North American Agreement on Labour Cooperation (NAALC) marks a watershed as the first agreement to substantively link labour rights and standards to an international trade agreement. Under the agreement, each country has made a commitment to enforce its own labour laws and standards and to promote 11 labour principles.[121] The NAALC sets up a dispute settlement process that is extremely similar to that in the environmental side agreement, the NAAEC, as described above. It is noteworthy, however, that sanctions may be applied only with respect to complaints pertaining to three of the rights — minimum wages, child labour, and occupational health and safety. Other fundamental labour rights are not sanctionable, including the rights to organize, bargain collectively, and strike.[122]

The NAALC creates an institutional framework that is slightly different, and effectively less independent, than that under the NAAEC. Each country has established a National Adminstrative Office (NAO), which tends to work closely with the labour ministry of that country. The key coordinating institution formed under the NAALC is the Commission for Labor Cooperation (CLC), which consists of a Secretariat based in Dallas, Texas, and a Ministerial Council composed of the three national labour ministers. Complaints about the labour practices of a country are directed to an NAO and may be resolved by consultations, a meeting of the Ministerial Council, or an ad hoc Evaluation Committee of Experts. Only cases pertaining to the three sanctionable rights noted above may go to arbitration and lead eventually to sanctions for non-enforcement.

The NAALC has given labour rights markedly enhanced public exposure in the trade context and provided a forum for trilateral labour research and cooperation. There have also been tangible indirect effects on governmental policy. John Foster of the North-South Institute writes that "[i]n the first three years of NAFTA the Mexican Government increased funding for the enforcement of its labour laws by 250%."[123] However, the labour union witnesses the Committee heard from were extremely critical of the agreement, in particular its limited scope and weak enforcement measures. Lawrence McBrearty of the United Steelworkers of America expressed frustration over the politically dependent nature of the process; he described the result of a complaint his organization filed at the Canadian NAO: "We were happy because we thought we had won. We didn't win anything. We won our argument, but we lost the battle. The only thing it does is the ministers of labour have to meet to see how they'll deal with it."[124]

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[121] The 11 principles are as follows: (1) Freedom of association and protection of the right to organize; (2) The right to bargain collectively; (3) The right to strike; (4) Prohibition of forced labour; (5) Labour protections for children and young persons; (6) Minimum employment standards; (7) Elimination of employment discrimination; (8) Equal pay for women and men; (9) Prevention of occupational injuries; (10) Compensation in cases of occupational injuries and illnesses; and (11) Protection of migrant workers. See the following page of the NAALC website: www.naalc.org/english/infocentre/whatisclc.htm.

[122] Foster, p. 11 of pre-publication draft.

[123] Ibid., p. 12.

Rob Hilliard of the Manitoba Federation of Labour was even more scathing in his remarks about the effectiveness of the NAALC complaint process:

> The NAFTA sidebar agreements on labour, to be perfectly blunt, are useless. They do nothing. They even state in those agreements that there is nothing in terms of domestic law that we can change. Domestic law shall prevail. All the trade agreements say is that you must enforce your own domestic law, and even there they have proven to be toothless. We have clear examples where the Canadian labour movement has attempted to use those provisions for what are obvious violations of even Mexican labour law. They have proven to be absolutely toothless in preventing what is clearly employer-dominated unions from using violence in many situations to prevent legitimate unions from forming. They really enjoy absolutely no respect at all in the eyes of the labour movement in this country. If you really want to do something demonstrable to ensure that the standard of living of working people will rise, you put that upfront in the trade agreement and you say this must happen. We must not attack the rights to bargain collectively, a practice that does go on and that is a feature of these globalized trade agreements.[125]

The Committee agrees that the rights of workers must be respected and protected for NAFTA to be successful at all levels of society. The "core conventions" of the United Nations International Labour Organization (ILO) are considered to be fundamental to the rights of people at work throughout the world as they set out the basic rights of workers in relation to: freedom of association; the abolition of forced labour; equality; and the elimination of child labour.[126] ILO standards are commonly cited in cases adjudicated under the NAALC. We cannot help but draw a similar conclusion with respect to labour rights under the NAALC as with our consideration of environmental protection under the NAAEC: if the rights of foreign investors can be so forcefully protected under Chapter 11 of NAFTA, the rights of workers should be entitled to equally effective enforcement. Furthermore, adequate funding for the NAALC Secretariat should be ensured.

Recommendation 23

The Government of Canada should initiate discussions with the governments of Mexico and the United States on ways to improve the enforcement of labour laws and standards under the North American

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[124] *Evidence*, Meeting No. 77, May 7, 2002.

[125] *Evidence*, Meeting No. 75, May 6, 2002.

[126] The eight "core conventions" of the ILO are as follows: Freedom of Association and the Right to Collectively Organize Convention, 1948 (No. 87); Right to Organize and Collective Bargaining Convention, 1949 (No. 98); Forced Labour Convention, 1930 (No. 29); Abolition of Forced Labour Convention, 1957 (No. 105); Discrimination (Employment and Occupation) Convention, 1958 (No. 111); Equal Remuneration Convention, 1951 (No. 100); Minimum Age Convention, 1973 (No. 138); Worst Forms of Child Labour Convention, 1999 (No. 182). These conventions are accessible at the ILO website: www.ilo.org/public/english/standards/ norm/whatare/fundam/

Agreement on Labour Cooperation (NAALC). Ensuring adequate funding for the NAALC Secretariat should also be discussed.

E. New NAFTA Institutions?

NAFTA does not currently have a strong institutional framework. Widespread economic integration in North America has not been matched by a corresponding level of institutional integration; indeed, the existing supranational institutions — the commissions on the environment and labour — are weak. According to Robert Pastor, who is one of the most active academic proponents of a North American community, the NAFTA agreement "did not envisage any unified approach to extract NAFTA's promise, nor did it contemplate any common response to new threats. NAFTA simply assumed that the peoples of North America would benefit from the magic of a free marketplace and that the three governments would resolve old or new problems."[127]

Moreover, while NAFTA may have created an economic partnership of three countries, it did not provide any institutional ties outside of trade and commerce. Stephen Clarkson of the University of Toronto made the following comment about what the NAFTA negotiations did not produce: "… we didn't get the kinds of institutions that would have given Canada a voice in Washington similar to Denmark's voice in Brussels." When talking of NAFTA institutions, it is difficult to avoid having comparisons made with the European Union (EU), which has a sophisticated set of institutions to govern trade and economics.

There are good historical reasons, however, for the lack of institutional structure in NAFTA. According to Alberta Sbragia, professor of Political Science at the University of Pittsburgh, the EU's "overinstitutional" nature was the price the smaller European countries demanded for the creation of the EU. Because of the desire of European nations to avoid the creation of a European hegemon following the Second World War, the EU was created with many supranational institutions that could keep the more powerful nations (Germany, France) in check. In contrast, Professor Sbragia argues, the creation of the North American Free Trade Agreement with its distinct lack of institutions is a direct result of the presence of a hegemon, the United States, which has no need or desire to have its power constrained.[128]

Economist Daniel Schwanen argued a similar point when he told the Committee: "A common intergovernmental decision-making structure, such as an EU-style council, which is sometimes talked about, could not function in North America, both because of the size imbalance between our countries and because, as is well known, Congress holds fast jealously to its powers."[129] Instead, Schwanen suggests using the CEC as a model for new NAFTA trade-oriented institutions:

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[127] Robert A. Pastor, *Toward A North American Community: Lessons From The Old World For The New*, Institute for International Economics, Washington, (D.C.), August 2001, p. 2.

[128] Alberta Sbragia, "The ECB, the Euro, and National Politics: The Implications for the Governance of Europe's Political Economy," presentation at the conference Challenges to Governance in North America and the European Union, Carleton University, February 8, 2002.

> What we could do is create independent bodies, perhaps modelled on the existing Commission for Environmental Cooperation, whose role would be to provide common fact-finding — common to Canada and the U.S. — and common reporting on issues such as subsidies, environmental practices, qualifications, or product standards across North America.
>
> Domestic agencies, such as the International Trade Commission in the U.S. and the Canadian International Trade Tribunal in Ottawa, would continue to be responsible for the administration of domestic laws and the protection of public interests in their respective jurisdictions. But they would be required to base any decision that created explicit obstacles to trade within their region, such as countervailing duties, on the fact-finding reports issued by these independent and multinational bodies, which, like the Commission for Environmental Cooperation, could embed processes for significant public as well as experts' inputs. Among other advantages, the procedure could reduce the risk of capture of regulatory agencies by private interests at the expense of the public.
>
> The whole idea is that we remain sovereign countries and each country will not jettison its trade laws and even the ability to impose, for example, countervailing or anti-dumping duties. But if we could manage to create a mechanism that would ensure that such decisions were created more on the basis of common fact-finding, including fact-finding based on public input, we would have made some progress toward mutual recognition.[130]

Without strong NAFTA institutions, Canada and Mexico continue to face the reality that if they want to sell into the American market, they will have to continue to play by U.S. trade rules. As Perrin Beatty has noted: "There are many unfinished issues from FTA and NAFTA — antidumping, countervailing duties, agriculture, and softwood among others. Further integration cannot move forward without effective infrastructure to address these challenges and others that will inevitably develop. The political and economic dominance of the U.S., combined with inter-jurisdictional problems within Canada between federal and provincial governments, makes the development of such institutions particularly challenging."[131]

In addition to the environment and labour commissions, the current institutional infrastructure of NAFTA consists of the Free Trade Commission, numerous NAFTA working groups and committees, and the NAFTA Secretariat, which maintains a section office in each country.[132] The Appendix to this chapter provides a detailed list of the inter-governmental bodies under, or inspired by, NAFTA. The Free Trade Commission, which consists of minister-level representatives from each country, is the principal NAFTA institution but is not a permanent institution in the physical or operational sense, as it simply convenes annually, or as needed, to supervise implementation and development of NAFTA. Each country designates a senior trade department official — the three NAFTA "coordinators" — to handle the daily management and administration of the NAFTA work program, much of which occurs through the various working groups and committees. The NAFTA Secretariat is responsible for administering the dispute resolution processes under NAFTA.[133] The Secretariat also provides some assistance to the Free Trade Commission, as well as to working groups and committees.

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[129] Daniel Schwanen, "Interoperability, not convergence," *Policy Options*, November 2001, p. 47.

[130] *Evidence*, Meeting No. 64, February 28, 2002.

[131] Beatty (2001), p. 11.

With regard to the NAFTA framework and the challenges of governing an increasingly integrated North American economy, many witnesses spoke of the importance of more effective, as well as more democratically accountable, institutions at the trilateral level, a subject we will explore further in Chapter 5. Related in particular to the management of growing trade relations among the three countries, some witnesses argued that new formal political and legal structures should be considered. In this regard, Robert Pastor was among the most explicit of our witnesses in providing suggestions for North American institution-building. His argument for such trilateralism is that "bringing all three sides together would enhance the ability to understand what problems are in common, and what solutions should also be forged in common." In addition to proposals for an overarching "North American Commission" and a "North American Parliamentary Group" (observing in regard to the latter, "I daresay the United States Congress would benefit enormously from hearing the concerns and the sensitivities of our two neighbours.") Pastor called for

> … a permanent court on trade and investment to replace the ad hoc dispute settlement mechanism. There is now sufficient precedent that we should no longer rely on recruits for each dispute, particularly because that is increasingly leading towards conflicts of interest. A permanent court would allow us to build on those precedents and solve some of the trade and investment disputes perhaps more quickly….[134]

The Committee accepts that stronger North American rules-based institutions would help Canada maximize its potential under NAFTA while preserving control over its sovereignty and policy direction. As for enhanced parliamentary cooperation, Donald

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[132] For an overview of the NAFTA institutions, see *The Institutions of NAFTA*, Department of Foreign Affairs and International Trade, Ottawa, 2001. Available at: www.dfait-maeci.gc.ca/nafta-alena/inst-e.asp. For much greater detail, see: *NAFTA's Institutions: The Environmental Potential and Performance of the NAFTA Free Trade Commission and Related Bodies*, Commission for Environmental Cooperation, Montreal, 1997. Available at: www.cec.org/files/pdf/ECONOMY/NAFTen_EN.pdf.

[133] In particular, under Chapters 14, 19 and 20, and with respect to certain aspects of Chapter 11. The Secretariat has a trinational website with information on Chapter 19 and 20 disputes. Available at www.nafta-sec-alena.org/, and each National Section maintains a registry of dispute proceedings.

[134] *Evidence*, Meeting No. 56, February 7, 2002.

MacKay of the Canadian Foundation for the Americas (FOCAL) pointed out that interchanges between elected officials can go a long way toward solving trade disputes.[135] The larger point to be carried over to the next chapter's discussion of possible future trilateral structures is that NAFTA's current framework probably cannot be improved upon very much without adding a new fortified institutional framework. As Aaron Cosbey of the International Institute for Sustainable Development put it:

> Pastor's points are well taken. The sorts of disputes we've seen coming up, that range from softwood lumber and all across the board, have not been managed well because they have not been foreseen, and having not been foreseen, they have not been prevented. Neither can we take lessons from them in any sort of a meaningful institutional manner, because we do not have the institutions specifically devoted to managing the North American commercial integration.
>
> We have crisis management tools in dispute settlement bodies, but to give you an example, there isn't a free trade commission secretariat. It does not exist. It's inconceivable, when one compares the European Union model and the North American model, to imagine that out of a scattered process like that we would get a managed sort of integration and one that would take into account the various policy objectives we have, not just economic but non-commercial as well, and shepherd them into some sort of a beneficial outcome.[136]

Specifically in regard to the development of a permanent North American court on trade and investment, Pastor suggested to the Committee that it would provide an opportunity to improve existing NAFTA dispute settlement mechanisms.[137] He noted that the mechanisms have worked well to date, but their ad hoc nature has serious limitations: expert Chapter 19 panellists without conflicts of interest are increasingly difficult to find, because they are unpaid and the volume of work involved is substantial, given a growing body of case law. The Committee agrees that consolidation of the various NAFTA dispute settlement processes under the jurisdiction of a single trinational permanent court, with paid judges appointed for extended terms, would more efficiently and effectively resolve trade disputes.

We are well aware of the resistance such institution-building ideas would likely garner in the United States, given the current protectionist political climate and the post-September 11 security-driven agenda. Our meetings in Washington indicated the lack of interest of U.S. legislators in pursuing new ideas on North American integration. But we are simultaneously encouraged by the cooperation-oriented enthusiasm we witnessed in Mexico City in March when we met with Mexican officials and commentators. We think Canada should build on this enthusiasm to pursue discussions on new North American institution-building ideas, even if only at the bilateral level initially.

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[135] *Evidence*, Meeting No. 88, June 6, 2002.

[136] *Evidence*, Meeting No. 80, May 8, 2002.

[137] Ibid.

Recommendation 24

The Government of Canada should initiate discussions with Mexico and the United States on the feasibility of developing a permanent North American court on trade and investment that would consolidate the existing NAFTA dispute settlement processes under a single trinational juridical body.

4.3 The Need for a Trade-Efficient Border

WHAT WITNESSES SAID

Speaking of open borders, we need open borders. We need an easier flow of trade in goods and services, not only for the economic benefits it provides, but also — and more saliently, in light of recent events — because the more effort we devote to blocking, inspecting, taxing or turning back legitimate trade and people flows at the border, the less effort we can devote to thwarting serious security threats.

Daniel Schwanen, Institute for Research on Public Policy,
Evidence, Meeting No. 64, February 28, 2002.

... since trade is so important to Canada, especially trade with the United States, we should try to keep the border as open as possible and to keep barriers to the movement of goods and services as low as possible to make it as easy as we can to cross the border, for the movement of goods and services to move as smoothly as possible.

Teresa Cyrus, Dalhousie University,
Evidence, Meeting No. 59, February 26, 2002.

It's a fact that Canada's economy is becoming increasingly integrated with that of the United States, and the problems at the border in the aftermath of September 11 really illustrate how vulnerable we can be to circumstances that may impede our access to this major market.

Jayson Myers, Canadian Manufacturers and Exporters,
Evidence, Meeting No. 55, February 5, 2002.

Since September 11, I think we've all become aware of how many businesses and jobs depend upon easy border crossings and also how fragile that border system is. And if thinking about a new North American agenda seemed academic before September 11, we all know now that it's a critical task.

Stephen Blank, Pace University,
Evidence, Meeting No. 90, June 13, 2002.

So various minds became focused. Our concern was to keep the border open so that goods, those on legitimate business, innocent tourists and people visiting families could move. From their standpoint, it was "bolster that border so that we can protect ourselves."

Reginald Stuart, Mount Saint Vincent University,
Evidence, Meeting No. 59, February 26, 2002.

U.S. security concerns have, of course, imposed serious economic costs upon Canada through border slowdowns and blockages. These costs are indeed also felt by Americans. However, U.S. costs are a much smaller proportion of U.S. GDP than is the case for Canada. Moreover, Americans have resolved, post 9/11, to absorb whatever costs may be required to establish homeland security. Thus the onus is clearly on Canada to shift American attention away from the Canada-U.S. border as a security risk, by satisfying the Americans that U.S. security requirements are being met in Canada.... The joint initiatives around a smart border are on the right track. Pre-clearance of people and goods, the application of new technology, such as biometric identifiers embedded in passports and travel documents, data sharing and joint enforcement can all go a long way to allaying the legitimate security concerns of the United States.

Reg Whitaker, University of Victoria,
Evidence, Meeting No. 76, May 6, 2002.

So given that comfortable relationship, a lot of things just happen naturally without much thought. For this reason, our border, in our view, basically suffered from considerable benign neglect until September 11. The pace of trade had vastly outstripped the border machinery and infrastructure capacity, and while the border system was not broken, it was pretty creaky in places.... Since September 11 the chamber has argued that efficient and effective border management is in the interests of both countries, and for Canada it's really a strategic issue. If we want to attract the incoming foreign investment that is going to use a Canadian base to service NAFTA, the border has to work....

In the wake of the events of September 11 and the development of the 30-point smart border action plan, we give good marks to Canadian ministers and officials for taking the initiative on many of the points in the discussions with U.S. counterparts. Many of these ideas came from Canada, not the U.S. By being proactive, we've been able to try to ensure that not only does the border remain open, but also that our interests are reflected in the solutions that are being put forward in this new security agenda.

Robert Keyes, Canadian Chamber of Commerce,
Evidence, Meeting No. 89, June 11, 2002.

Much work has already been achieved as a result of the dialogue between the two governments, particularly the dialogue that resulted in the smart border accord that was announced by then Foreign Minister John Manley and Governor Tom Ridge, Director of Homeland Security, in December. A lot of work has already been initiated under that accord, but I must indicate that I'm not surprised at the comments recorded in the press over the weekend that indicated a certain amount of frustration at the slow pace in implementing the border accord.

Michael Hart, Carleton University,
Evidence, Meeting No. 55, February 5, 2002.

The critical fact is that although we are the busiest and most vital cross-border link between Canada and the United States, there has been no new infrastructure here to support the reality of our status since about 1930. Windsor-Essex is trying to cope with 21st century needs using transportation facilities from the Great Depression.

Michael Hurst, Mayor of the City of Windsor,
Evidence, Meeting No. 81, May 9, 2002.

... we believe it is time for the governments on both sides of the border to move towards implementing the 30-point action plan in the smart border declaration. Government must keep border management up to pace with economic changes. This has not happened since the signing of the FTA.

Sean Cooper, Atlantic Provinces Chamber of Commerce,
Evidence, Meeting No. 61, February 27, 2002.

So while I would argue that the smart border declaration is a really important and necessary step, something the government should be commended for, it is an insufficient step. It's making incremental improvements to the existing framework rather than a proactive step in terms of a fundamental rethinking of what the purpose of the border is, what we need to do at the border, and what we could do elsewhere.

Danielle Goldfarb, C.D. Howe Institute,
Evidence, Meeting No. 77, May 7, 2002.

By my count the Canadian Customs and Revenue Agency enforces 186 legislative instruments on the board. These are not their creations. These are politically mandated actions. I expect some of those restrictions or some of those actions they take have been against the imported buggy whips, because that border has been around a long time. To my knowledge, there has been no concerted review of just what is done on the border and why.

George Haynal, Harvard University,
Evidence, Meeting No. 56, February 7, 2002.

A. NAFTA and the Border

Well before the tragic events of September 11, 2001, the Canada-U.S. border had come under increasing stress from higher volumes of trade and travellers, especially at key border crossings. Indeed, it would not be inaccurate to suggest that the border, through which is conducted the largest trading relationship in the world, had been choking on its own success. There is no question that the pace of Canada-U.S. trade had outmatched the quantity of border machinery and the infrastructure capacity in place to deal with it.

Prior to September 11, some efforts had been undertaken to develop policy responses to border challenges. A key element was the October 1999 establishment by Prime Minister Chrétien and U.S. President Clinton of the Canada-U.S. Partnership (CUSP) to examine the future of Canada-U.S. border management. This collaborative effort encompassed three guiding principles:

- Streamlining, harmonizing and collaborating on border policies and management;
- Expanding cooperation at, and beyond, the border; and
- Collaborating on common threats from outside Canada and the United States.

The first CUSP report, completed in December 2000, recommended that CUSP continue a Canada-U.S. dialogue with public and private stakeholders on border issues. It also encouraged greater cooperation through such bilateral mechanisms as the Shared Border Accord, Border Vision, Cross-Border Crime Forum, and the Motor Carrier Consultative Mechanisms.

While much discussion was undertaken through these bilateral mechanisms, the two national governments did not display much haste in acting on proposed solutions. According to Robert Keyes of the Canadian Chamber of Commerce, a policy of "benign neglect" had allowed border infrastructure (e.g., the roads leading to the border, screening procedures and facilities, staffing levels) to cause problems even before the terrorist attacks. Indeed, the inadequacies of infrastructure and personnel resources were seriously hampering efforts to cope with burgeoning traffic at increasingly congested crossings such as the Ambassador Bridge linking Windsor and Detroit, which alone carries an annual volume of trade equal to that between the United States and Japan.

Keyes remarked that even though Canada-U.S. trade had risen greatly in recent years — by a factor of six, by his reckoning — resources allocated to the border had remained constant. Thus, there was much work to be accomplished to facilitate Canada-U.S. trade, from streamlining border procedures to reinvesting in infrastructure to increasing resources to customs agencies on both sides of the border.

B. Impacts of September 11

The terrorist attacks on the United States highlighted a number of problems along the almost 9,000-kilometre border that Canada shares with its southern neighbour. The inadequacy of border infrastructure and personnel has already been noted; in addition, border security became the focus of attention. This, notably reinforced by the Ahmed Ressam case in late 1999, had to do with the ability of criminal elements and suspected terrorist operatives to cross borders. There were calls for enhanced screening and other security measures to protect against these threats, but without unduly restricting openness to vital commerce and travel within North America.

After September 11, it became clear that the United States would strengthen security at its borders. The unprecedented tightening of controls by U.S. authorities (e.g., the positioning of armed officials at the border) exposed, in sudden and dramatic fashion, concerns that had been accumulating for years. The American decision to close the border briefly that day, and continued tightening of security in the form of 100% inspections, focused attention on Canada's high dependence on the U.S. market for Canada's prosperity. Indeed, exports to the U.S. account for approximately one-third of Canada's GDP. Evidently, Canada is severely affected by any disruptions at the U.S. border emerging from the United States' heightened sense of vulnerability.

Exporters feared that the border would be tightened indefinitely, disrupting the free flow of goods between the two countries. Border delays immediately following September 11, often ranging from eight to twenty hours, were especially serious for Canadian border communities and for sectors highly dependent on ease and efficiency of cross-border access (e.g., airline and hospitality industries, trucking, and industries relying on just-in-time delivery, such as automotive and auto parts production). In the United States, automotive giants Ford Motor Company and DaimlerChrysler announced planned closures of their plants owing to the lack of automotive parts normally delivered from Canada on a just-in-time basis but now stalled at the border.

From an investment point of view, firms often locate in Canada on the assumption that they will be able to effectively service the U.S. market from there. In a November 2001 report on border issues, however, this Committee's Subcommittee on International Trade, Trade Disputes and Investment observed that without "reliable access to that prized market, foreign-based companies may be reluctant to establish business operations in Canada. Others, both domestic and foreign, may wish to relocate existing facilities south of the border."[138]

In the period immediately following September 11, concerns were expressed that the Canadian economy would suffer broader and longer-term costs if no efforts were made to find joint solutions to address border issues arising from the new security environment. Business and industry groups, notably the Coalition for Secure and Trade Efficient Borders (which released a detailed report, *Rethinking our Borders: A Plan for Action*, in early December 2001), were most active in urging bilateral collaboration on a range of border security-related fronts, including sensitive areas such as immigration and asylum, risk assessment, and data sharing.

The Committee, in two reports it tabled late last year (*Towards a Secure and Trade-Efficient Border* and *Canada and the North America Challenge: Managing Relations in Light of the New Security Environment*), also made a number of recommendations and observations on securing a Canada-U.S. border that remains reasonably open, and on broadening the consideration of border security issues, both to include Mexico within a North American perspective and to evaluate where multilateral action on a wider scale may be needed to effectively counter potential terrorist threats.

During our 2002 hearings on North American integration, a number of witnesses reiterated the need to maintain a border that is open to legitimate trade and people, while effectively dealing with potential security threats. Canada, as John Furey from the Saint John Board of Trade informed the Committee, has indeed enjoyed the longest undefended border in the world (since the War of 1812) and it cannot afford to lose this advantage.[139] Professor Teresa Cyrus concurred, arguing that given the importance of trade to Canada, it was imperative that the border be kept as open as possible.[140] For his part, Daniel Schwanen of the Institute for Research on Public Policy highlighted both the economic and the security benefits that an easier flow of trade in goods and services can provide.[141]

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[138] *Towards a Secure and Trade-Efficient Border*, Report of the Subcommittee on International Trade, Trade Disputes and Investment of the House of Commons Standing Committee on Foreign Affairs and International Trade, November 2001, p. 4.

[139] *Evidence*, Meeting No. 63, February 28, 2002.

[140] *Evidence*, Meeting No. 59, February 26, 2002.

C. Recent Actions

Fortunately, as we noted in Chapter 3, concrete actions were taken after the events of September 11. The Government of Canada adopted certain measures to reduce border delays while, at the same time, ensuring an adequate level of border security. These actions included employing additional personnel at the border, establishing dedicated traffic lanes for commercial traffic, opening additional lanes for passenger vehicles, and designating special processing lanes for trucks that had already passed through expedited pre-clearing.

In conjunction with its own, independent actions, the federal government also cooperated with the Americans on a joint strategy for the border. On December 12, 2001, the two countries signed a declaration for the creation of a "Smart Border for the 21st Century."[142] The declaration includes 21 new objectives and expands on nine other Canada-U.S. initiatives set out in the 8-point Joint Statement of Cooperation on Border Security and Regional Migration Issues (signed on December 3, 2001) and in the RCMP-FBI agreement to improve the exchange of fingerprint data.

The Smart Border Declaration was accompanied by a 30-point Action Plan, based on four pillars: the secure flow of people, the secure flow of goods, secure infrastructure, and coordination and information sharing. The plan is designed to enhance collaboration in identifying and addressing security risks while efficiently and effectively expediting the flow of legitimate people and goods across the shared border. It leans heavily on the principle of managing risk by concentrating resources on individuals and products displaying higher degrees of risk. A Canadian Border Task Force was established for its implementation.

Many witnesses appearing before the Committee expressed satisfaction with the progress made in jointly addressing border shortcomings. There was also a feeling, expressed perhaps most effectively by Robert Keyes of the Canadian Chamber of Commerce, that the Canadian decision to be proactive on the border had ensured that it remained open and that our interests had been reflected in the solutions proposed.[143] The Committee is of the view that the Canada-U.S. border reform package, encompassing as it does a coherent risk management approach, exemplifies the success Canada can realize when it presents a concrete, wide-ranging reform proposal to the U.S.

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[141] *Evidence*, Meeting No. 64, February 28, 2002.

[142] "Canada and the United States Sign Smart Border Declaration," Department of Foreign Affairs and International Trade News Release No. 162, December 12, 2001.

[143] *Evidence*, Meeting No. 89, June 11, 2002.

side. Indeed, the border management proposal produced by Deputy Prime Minister John Manley and his bureaucracy was left virtually unaltered by the United States.

To carry out the Action Plan effectively, both governments set aside significant financial resources. On this side of the border, the Canadian federal Budget of December 10, 2001 allocated $1.2 billion in future years to render the border more secure, open, and efficient. Roughly one-half of this funding has been directed towards the improvement of border infrastructure (e.g., improvement of access roads, addition of new lanes, purchase of electronic scanners for quicker inspections); the other half will be devoted to enhancing border security through enforcement, intelligence gathering for security purposes, and equipment. Most of the infrastructure money will be destined for Canada's six major border crossings.

In January 2002, President Bush announced that his administration would be seeking US$10.7 billion in its next annual budget specifically to bolster border security, in addition to the planned massive increases in defence spending. Some U.S. troops were to be deployed to duties on the Canada-U.S. border as well as to the Mexico-U.S. border.

D. The Need for Additional Progress

On June 28, 2002, Deputy Prime Minister John Manley and White House Homeland Security Advisor Tom Ridge released a generally favourable progress report on the implementation of the Smart Border Declaration and the 30-point Action Plan. This was followed up by the release on December 6, 2002 of a one-year status report on the Smart Border Action Plan.[144] It is evident from this status report that much still remains to be achieved. It also bears mentioning that both parties to the Smart Border Declaration have now officially invited business leaders to the annual Shared Border Accord meeting, thereby strengthening the process of securing effective private sector input.

On the positive side, Canada has been seeking innovative ways to streamline the movement of low-risk, pre-approved goods through such programs as Canada Customs and Revenue Agency's Customs Self-Assessment (CSA). This program, implemented on December 6, 2001, after several years of planning, reduces pressure at the border through pre-approval of low-risk traders and post-auditing of their books. Similarly, the U.S. government recently unveiled its new Customs-Trade Partnership Against Terrorism (C-TPAT) program, which speeds up border crossings for low-risk commercial shippers while requiring companies shipping into the United States from Canada to agree to strict security requirements.

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[144] This document can be obtained at the following website: www.dfait-maeci.gc.ca/can-am/menu-en.asp?act=v&mid=1&cat=cat=10&did=1671.

In September 2002, President Bush and Prime Minister Chrétien formally announced the launch of a new joint program (Free and Secure Trade, or FAST) to facilitate the movement of commercial shipments across the border. The FAST program is designed from the framework of the two existing (CSA and C-TPAT) unilateral programs. Among other things, this program establishes fast lanes for approved, lower-risk shipments (i.e., those purchased by pre-authorized importers and transported by pre-authorized drivers and carriers). Subjecting truckers to a rapid electronic security check in these lanes will, it is hoped, result in more efficient border processing. FAST lanes at Canada's three busiest commercial border crossings (Windsor-Detroit, Sarnia-Port Huron, and Fort Erie-Buffalo) are to be opened on December 16, 2002.

Moreover, fast lanes for low-risk pre-cleared travellers (as opposed to shippers) were opened in June 2002 at two B.C.-Washington State border crossings. Expansion of this NEXUS program to all border crossings is to occur by the end of this year. Plans are also under way to launch a new program incorporating fast lanes at airports for low-risk air travellers, referred to as NEXUS-Air. Pilot projects in Ottawa and Montreal are to begin by early 2003.

Despite these cumulative measures, not all witnesses were satisfied with the pace of the action already undertaken on the border. For example, Sean Cooper of the Atlantic Provinces Chamber of Commerce noted the need for rapid implementation of many measures announced in the Action Plan,[145] while Michael Hart of Carleton University registered sympathy with the frustration arising from a slow pace in implementing the border accord.[146]

We note that security delays (owing to new security regulations) and the existence of red tape continue to delay truck traffic. A survey of cross-border trucking companies conducted in May 2002 by KPMG revealed that crossing into the United States was taking 20% longer than in May 2001, because of heightened security demands. Delays for trucks heading into Canada were also observed. All in all, progress on developing the infrastructure required to establish a more effective border-crossing network has been slow. Frequently used border locations such as Windsor[147] still require additional crossing points and/or the expansion of existing ones to provide for the separate lanes required to streamline traffic. This need for investment in border infrastructure was further reinforced by the Canadian Chamber of Commerce in its recent statement on border progress.[148]

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[145] *Evidence*, Meeting No. 61, February 27, 2002.

[146] *Evidence*, Meeting No. 55, February 5, 2002.

[147] Michael Hurst, Mayor of the City of Windsor, informed the Committee that his city requires a new link between Highway 401 and the U.S. interstate system to help handle the 13 million vehicles (including 3.4 million trucks) that cross the Windsor-Detroit border each year.

[148] Canadian Chamber of Commerce, *Completing the Canada-US 30-Point Plan*, December 3, 2002.

To resolve this situation, both major infrastructure spending and streamlined security measures will need to be put in place. It is hoped that the introduction of the FAST and NEXUS programs will help ease the delays. However, the funding required in the United States to upgrade technology and increase the quantity of border staff has not been appropriated by the U.S. Congress, even though Mr. Ridge has made a commitment to provide more funds for both infrastructure and staffing. A shortage of funding from Washington to provide more U.S. Customs officers at the border has historically been blamed for creating traffic delays there. Moreover, as the Canadian Chamber of Commerce recently pointed out, progress on shifting the clearance function away from the border (i.e., pre-clearance) has been minimal.[149]

Recommendation 25

Given the critical need for new infrastructure at key Canada-U.S. border locations, the Government of Canada should accelerate its efforts to construct such infrastructure at existing border points and more actively encourage its American counterpart to do the same.

In addition, the Committee received evidence from Jérôme Turcq of the Public Service Alliance of Canada that Canada's contingent of customs and immigration officers continued to be below requirements, that the monitoring of certain border points was deemed to be deficient, that the training given to students hired during peak summer periods was too brief, that their supervision was inadequate, and that the training given to customs officers to properly supervise their immigration colleagues was of insufficient quality.[150]

Recommendation 26

The Government should ensure that the number of customs and immigration officers at the border matches current requirements, given the new security demands imposed on these officials. Training and the equipment available to border officers should be enhanced.

Another shortcoming in the system is that customs regulations remain antiquated, and the mindset of customs officers continues to be fixated on collecting revenues — which have declined in significance over the years — rather than finding ways to make cross-border traffic flow more rapidly. In his testimony, for example, George Haynal pointed to a staggering 186 legislative instruments that customs officials must enforce.[151]

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[149] Ibid.

[150] *Evidence*, Meeting No. 62, February 27, 2002.

[151] *Evidence*, Meeting No. 56, February 7, 2002.

Recommendation 27

The Government should thoroughly review the set of customs regulations currently administered by customs officials within the Canadian Customs and Revenue Agency, with a view to their modernization. Border officials should be fully versed in any resulting changes so that they can deal more effectively with today's border realities.

A number of witnesses favoured even more drastic action on the border than the incremental action already undertaken or planned. For example, Danielle Goldfarb of the C.D. Howe Institute called for a fundamental review of the entire purpose of the border.[152] Michael MacDonald of the Atlantic Institute for Market Studies stated that the border problems are more than congestion at key crossings such as Windsor-Detroit and should be considered as such by federal officials.[153] The Atlantic Provinces Chamber of Commerce, in its written submission to the Committee, suggested that border management be an integral part of the longer-term vision for the Canada-U.S. relationship.[154]

In this context of a significantly revamped border, several witnesses brought up the possibility of establishing a new common North American security perimeter or zone of confidence. Under this scenario, which has already been discussed in Chapter 3, border controls could potentially move to a wide range of sites both in and out of North America. Professor Laura Macdonald discussed Europe's Schengen Agreement, under which ease of movement between the majority of EU member countries has been assured; she identified concerns that adoption of such a move in North America would entail a gradual harmonization or convergence of many Canadian policies with those of the United States (i.e., a sacrifice of Canadian sovereignty).[155] For his part, Gordon Gibson of the Fraser Institute argued that the border should be buttressed by a common security perimeter, but that there was virtually no prospect of eliminating the border in light of the need to control or prevent the movement of illegal products (e.g., drugs) between the two countries.[156]

Recommendation 28

The Government should undertake a thorough review of long-term options for the Canada-U.S. border and present its findings to the public. This assessment should include an evaluation of the European Union's experience in easing the movement of goods and individuals

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[152] *Evidence*, Meeting No. 77, May 7, 2002.

[153] *Evidence*, Meeting No. 59, February 26, 2002.

[154] *Submission*, Atlantic Provinces Chamber of Commerce, Presentation on the North American Relationship and the G8 Agenda, February 27, 2002.

[155] *Evidence*, Meeting No. 88, June 6, 2002.

[156] *Evidence*, Meeting No. 78, May 7, 2002.

between most of its member countries and an analysis of the implications of establishing a security perimeter around North America.

Finally, two other issues are worth mentioning. First, President Bush's January 2002 State of the Union address indicated that additional entry/exit controls would be introduced for visitors to the United States. Although some of these provisions might not apply to Canadian citizens, the problems arising over Section 110 of congressional immigration legislation several years ago suggest that Canada will have to monitor this situation very closely to avoid further potentially negative border effects.

The second issue to consider is the possible trilateralization of border issues. Whereas Mexico would prefer to deal with the border under the rubric of NAFTA, Canada and the United States continue to remain in favour of a bilateral process. On this point, the Committee heard from Professor Laura McDonald of "an inevitable trilateralization of previously bilateral concerns."[157] She offered the example of the Mexico-U.S. border accord, which had been patterned after the Canada-U.S. one previously entered into. However, this example has little to do with trilateralization and, indeed, is an example of "double bilateralism" at play. We will return to this theme of trilateral versus bilateral approaches in the subsequent section on future integration options and in Chapter 5.

4.4 Enhancing the Competitiveness of the Canadian Economy in North America

WHAT WITNESSES SAID

Canada runs the risk of becoming a marginalized economy within North America. Here, the policy implication is very clear. Like Canadian business, it's not sufficient just to be as good as the United States in terms of the economic environment for business and investment in this country. Canada can offset the powerful attraction of the U.S. market only by ensuring that we offer the best tax and fiscal environment, the best infrastructure, and the best returns on investment in North America. The common aim of all governments in this country should be to make Canada the preferred location in North America for businesses to locate, invest, manufacture, export from, employ, and grow.... In my view, our economic relationship with the United States must also become a domestic issue about how best to improve the productivity of Canadian industry.

Jayson Myers, Canadian Manufacturers and Exporters,
Evidence, Meeting No. 55, February 5, 2002.

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[157] *Evidence*, Meeting No. 88, June 6, 2002.

There is an 18% economy-wide productivity gap between Canada and the United States. For example, in manufacturing, the productivity gap is even wider at 34%. This is a major difference but I see no reason why Canada cannot be as productive as its Southern neighbour.... the gap between Canada and the United States in real GDP per capita, measured with purchasing power equivalent, was over $8,000 in 2001. For a family of four, that's $33,000 a year. Lower productivity explains close to 90% of the Canada-U.S. income gap.

Peter Harder, Industry Canada,
Evidence, Meeting No. 90, June 13, 2002.

The heavy economic dependence on and interrelationship with the United States demands that Canadian policy-makers, when developing initiatives in such areas as taxation, competition, technology, environment, exporting, and so forth, test the potential impact of the policy in light of this interdependence. To do otherwise is to invite potential consequences that may be somewhat negative and ones that Canada can ill afford to absorb.

Isaiah A. Litvak, Florida Atlantic University,
Evidence, Meeting No. 87, June 4, 2002.

... we do have a lot of advantages: the health care system, a well-educated workforce, our dollar, and our cost base. Our tax system is getting better. We've made a lot of progress. We still have a way to go, but it's getting better.

Robert Keyes, Canadian Chamber of Commerce,
Evidence, Meeting No. 89, June 11, 2002.

Improving the Economic Climate in Canada

A number of witnesses addressed the issue of how best to increase Canada's ability to compete with the United States in today's integrated continental economy. For example, Sean McCarthy of the Newfoundland branch of the Canadian Manufacturers and Exporters argued that the business environment had to be improved at home in order to take greater advantage of North American economic integration. According to Jayson Myers of the national office of the Canadian Manufacturers and Exporters, the key to enhancing competitiveness and ultimately Canada's standard of living lies in reversing this country's productivity gap with its southern neighbour. Achieving that goal, he observed to the Committee, could be aided by a boost in investment in new technologies and an increase in innovation on the part of Canadian business, as well as by investments in the domestic labour force and an accelerated introduction of new products into the marketplace.[158] Myers went on to offer these specific policy measures as remedies:

- Removal of taxation on investments in new technology;
- Elimination of capital taxes;
- Improvement in the design of research and development tax credits;

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[158] *Evidence*, Meeting No. 55, February 5, 2002.

- Removal of provincial barriers to trade within Canada; and
- Elimination of inconsistencies and duplication in Canadian regulatory systems.[159]

Peter Harder of Industry Canada made similar points during his appearance before the Committee. He suggested that the key way to close the productivity gap was to both attract and retain investment. In reality, Canada's share of North American inbound foreign direct investment had declined to a figure of only 6% in 2000, with the robust U.S. economy having gained a corresponding market share. To help meet the challenge of North American economic integration, he called for "innovation and enhancing Canada's activities in value-added products; creating an attractive climate for investment; retaining and attracting human and knowledge capital; and continuing to strive for reductions in barriers and impediments to the free flow of goods, services, and productive resources across the economy."[160]

Professor Isaiah Litvak of Florida Atlantic University argued that it was imperative for Canadian policy-makers to put in place the appropriate policy environment to ensure that Canada is the "preferred choice for business locations and growth in the North American space."[161] For example, Canadian tax rates should, at the minimum, be competitive with those in the United States. Otherwise, investment will flow into the United States, headquarters operations will be transferred south, and professionals and entrepreneurs will also relocate.

Recommendation 29

To ensure that the Canadian economy remains competitive within an increasingly integrated North American economy, and to boost living standards in Canada, the Government should urgently implement additional measures to help reverse the Canada-U.S. productivity gap. Emphasis should be placed on providing tax and regulatory relief, working together with the provinces to eliminate barriers to inter-provincial trade and generating investments in Canada's labour force.

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[159] Ibid.

[160] *Evidence*, Meeting No. 90, June 13, 2002.

[161] *Evidence*, Meeting No. 87, June 4, 2002.

4.5 Options for Managing Further North American Economic Integration

WHAT WITNESSES SAID

The time has come to achieve a seamless market governed by a single set of rules implemented and administered by the two governments to achieve their common interest in a well-functioning and secure North American economy. To get there, the two governments need to examine the contours of a new agreement, enshrined in a NAFTA-plus accord, implementing rules, procedures, and institutions consonant with the reality of ever-deepening, mutually beneficial cross-border integration.

Michael Hart, Carleton University,
Submission, Meeting No. 55, February 5, 2002.

We've talked a little bit about the dollar, but I think the issue of, say, a customs union with the U.S., which would be the next step in the integrationist argument, is equally problematic. It's maybe a little more dangerous because it's less obvious, while the currency is something everybody sees in front of them every day. Seeing your trade policy being set in Washington is not exactly all that obvious. As well — and again, it's scary that we should even be discussing this — if you think about how a customs union might be negotiated with the U.S., I can imagine all sorts of other things that it would involve too. As was rightly pointed out in this background paper, the Canada-U.S. Free Trade Agreement and NAFTA did not get Canadian industry exemption from U.S. countervail and anti-dumping actions.

Rod Hill, University of New Brunswick,
Evidence, Meeting No. 63, February 28, 2002.

Where an as-needed approach is not working or is insufficient to enable us to have secure access to the U.S. market, we should really start thinking in terms of a proactive big vision or big framework.... A big vision could really open up new bargaining possibilities in which Canada could leverage its advantages in exchange for what it wants and would otherwise be unlikely to obtain if we continue to use a piecemeal approach....

Canada could ask, for example, to eliminate U.S. anti-dumping and countervailing duty laws — something we could never hope to achieve without its being framed in terms of a larger package of initiatives. And the U.S. could, for example, be interested in greater energy security and defence cooperation. By identifying interests of both parties, we can interest the U.S. in meeting Canadian goals and can thus achieve more secure access to the U.S. market....

I just want to point out that a vision that includes this type of strategic cooperation, or a bigger-picture idea, does not necessarily mean Canada could not or should not continue to make improvements on existing NAFTA structures in a sort of incremental way — such as, for example, by extending the NAFTA visa program to technical personnel. Similarly, a vision that interests the U.S. does not necessarily mean Canada would have to harmonize to the U.S. standard. Mutually recognizing each other's standards would greatly facilitate movements between our countries without harmonizing policies. That has been done quite successfully in Europe, for example.

Danielle Goldfarb, C.D. Howe Institute,
Evidence, Meeting No. 77, May 7, 2002.

In the short term, of course, as I am suggesting, the deepening of NAFTA will be the appropriate solution. Certainly, the smart border declaration is a great step towards deepening NAFTA, and I am delighted to see it is happening here.... If we can reach a little bit further to harmonize our standards, to harmonize our procedures so that they'll be predictable for business people and therefore the movement of trade will be predictable as well, I think that would be great.

In the longer term, perhaps we should be aiming at a customs union. A customs union is not a panacea. It will not solve all the problems, because again the three nations still would like to maintain their independence and retain their unilateral power to introduce elements into the trade equation. However, a customs union would at least go a long way to reduce the trade irritants. It would open up the flow of goods a little more. Maybe we could push a bit further to facilitate the movement of people as well.

Alfie Morgan, Windsor and District Chamber of Commerce,
Evidence, Meeting No. 81, May 9, 2002.

The customs union would certainly deepen our economic integration, but it would not necessarily create a single market. For the foreseeable future goods will still have to be taxed differently, priced in different currencies, and be subject to different domestic regulations. We are not saying we are going to give up our regulations. A common external tariff is only one piece of an integration puzzle. There is more to it than that.

One possibility that has been suggested is that we can work on certain sectors and try this to see how it works. The steel industry is a good example of that. There is already a good deal of cross-border ownership and sourcing of raw materials, and even the union representation is cross-border. That trial would be a good way for Canada and the United States not only to improve the efficiency of the current industry, but also to assess the real impact of an external tariff.

Sean Cooper, Atlantic Provinces Chamber of Commerce,
Evidence, Meeting No. 61, February 27, 2002.

I'm proposing that if we move to a customs union, which basically says that the tariffs the Japanese have to pay are essentially the same whether the goods come into the United States or Canada, we will no longer need this very laborious, rigorous structure of rules of origin. We can move to a situation where trade really is free across the border.... So there is some reduction in sovereignty. However, the benefits, I would argue, far outweigh the costs. The benefits are closer integration. The benefits are increased trade across the Canada-United States border. We don't have to worry about rules of origin. We don't have to worry about bureaucracy.

Barry Scholnick, University of Alberta,
Evidence, Meeting No. 82, May 9, 2002.

Some people have suggested that we move towards a customs union as a kind of big idea. I actually don't know whether that's a big enough idea.... Having a North American vision and working within it will help align our domestic policy-making in a constructive direction. It would us strengthen our domestic intergovernmental agreements. It would help us readjust our tax and regulatory structures to make them more effective. And it would also help us, the decision-makers, to get our heads around this ambiguous situation we're in now, where we're sort of part of a North American something, but we don't know exactly what it is.

Guy Stanley, University of Ottawa,
Evidence, Meeting No. 90, June 13, 2002.

I think Wendy Dobson is not incorrect when she calls for us to launch forward with some big idea to engage the Americans. I think we need to look at a common market, so goods can flow easily across the border. That is related to the security issue. We should build a common perimeter around that common market, so any goods security-cleared for Canada can move into the United States, and vice-versa.... Getting a dispute settlement mechanism that is truly effective is one of the areas where we should be approaching the United States with a big idea. We might be able to do this if we presented something that will grab their attention. You were talking earlier about how difficult it is to get their attention. We could present the common market, common perimeter idea as a large concept, rather than what we're doing now, which is nibbling at the edges here and there, on this security matter or that.

Fred McMahon, Fraser Institute,
Evidence, Meeting No. 78, May 7, 2002.

On Canadian foreign economic policy, my specific point is that Canada's near-term goals for economic integration in North America ought to strive for a common market, with greater mobility for goods and services and workers amongst the three NAFTA partners. An even deeper economic union, such as the one in Europe, is not a realistic possibility given the distinctive challenges faced by Mexico, for instance, as a developing nation. Furthermore, it's not clear at this time that harmonization of social or currency policy between Canada and the United States would be practical or even desirable.... Standard regulations for subsidies and competition between the two states would reasonably reduce the degree to which both countries still rely on trade legislation.... Canada should seek staggered implementation of regulation standards on subsidies, competition, the environment, resources, and even a possible customs union.... Canada needs to identify advantageous features of deeper integration with the U.S. A common market would improve Canada's access to American trade and commerce. An economic union, on the other hand, would likely reduce Canada's influence and options.

George MacLean, University of Manitoba,
Evidence, Meeting No. 75, May 6, 2002.

So the way I view the customs union issue and in fact the whole Canadian trade policy issue is that obviously on the political side, the cost side, there's a tremendous issue of sovereignty, but there is the reality of economic life in Canada, the fact that we have to export to prosper.... It does require changing the FTA, so it's not a simple matter. Parts of the agreement would have to be reopened, and it might be that some of the more contentious stuff — the Chapter 11 — would be linked with that. There are certainly issues there.

Richard Harris, Simon Fraser University,
Evidence, Meeting No. 76, May 6, 2002.

... because of the astronomical costs caused by shipment delays at the border, I believe that we will eventually have to enter into a customs union with the United States. Hundreds of millions of dollars a day were lost in September and October because of delays at the borders. I know that there is a lot of reluctance and that the government is not ready to go down that road, but I really do not see how we can avoid doing so. It will take time, but it will happen. The economic imperatives we share with our neighbour are much greater than those shared by the European countries. As I said earlier, no two other countries do as much trade as Canada and the United States. Yet, the Europeans have done away with border controls and allowed the free movement of goods and people.

Louis Balthazar, Laval University,
Evidence, Meeting No. 60, February 26, 2002.

There is value in differences … especially when needs are different across jurisdictions. But none of this means Canada cannot or should not make major headway in facilitating and reducing the cost of the enormous movement of trade and people across North American borders, or in adopting measures necessary to minimize security risks to itself and to others. But in trying to do this we should not be swept away by a sense of inevitable assimilation, a sense of an inevitable convergence of standards.… A customs union, yes, would mean we would have harmonized tariffs, and you wouldn't have to prove, if you wanted to export your product, that your product was of North American origin. Yes, there would be some advantages to a customs union, but the real hard questions would still be whether we would be exempt from U.S. anti-dumping and countervailing duty, whether we would be able to access procurement opportunities in the States, and so on — all these issues that have been left behind by the free trade agreement.

Daniel Schwanen, Institute for Research on Public Policy,
Evidence, Meeting No. 64, February 28, 2002.

It's very hard to reverse these arrangements once they've been put in place, and once they are in place they generate pressure for further integration. There are long-term consequences as a result of this that we can't foresee; therefore, we ought to be, in my view, extremely cautious. I don't think we'd get a very good deal in the short term anyway. And I don't see any evidence that this administration is interested in a big idea.

Don Barry, University of Calgary,
Evidence, Meeting No. 80, May 8, 2002.

More than ever, I suggest, incrementalism is the safest route. My concerns arise from my background as a political scientist with regard to both process and objectives. Bargaining for a big idea, an enhanced and formalized framework for greater integration, would be a serious mistake, because as a strategy it ignores or misconstrues the political context.

Reg Whitaker, University of Victoria,
Evidence, Meeting No. 76, May 6, 2002.

… the NAFTA appears increasingly like a one-shot arrangement that will require a major political effort to extend to further deepen the commercial or social or political facets of our relationships with Mexico and the United States. I would suggest that currently there seems little will in the U.S., or for that matter in Canada, to move trade relations toward a further deepening of economic integration, which in part may be because the full adjustment to the changes brought about by NAFTA have not yet been accomplished.

William Kerr, Estey Centre for Law and Economics in International Trade,
Evidence, Meeting No. 83, May 10, 2002.

To take advantage of the potential opportunities of North American economic space will require Canada to look at its policies and programs to determine if they help create economic opportunities for Canadians to participate in value-added and knowledge-based activities within Canada; provide incentives for investment by domestic and foreign investors; encourage private sector entrepreneurship in action; reduce border risks; facilitate the operation of an efficient North American marketplace and improve Canada's productivity and innovative performance; and draw highly qualified people in key disciplines in the knowledge economy to Canada as a place to live and work in the 21st century.

Recently, Wendy Dobson of the Rotman School of Management at the University of Toronto put forward an interesting idea. She suggested that now is the time to act. Canada needs to take the lead before the U.S. is forced to react. The tragic events of September 11 are providing Canada with a window of opportunity to think big and engage the Americans. She says that ad hoc approaches are lost in the U.S. political system. A strategic bargain she says is possible. Sovereignty is not just what we give up but it is what we gain.

Peter Harder, Industry Canada,
Evidence, Meeting No. 90, June 13, 2002.

On the whole, their assumption is that the next stage of North American integration needs to be some kind of big leap forward. But I hope this committee, while probing all the possibilities, will adopt some skeptical views on the big ideas that are being presented.... There's an extremely low possibility that the American system would respond this time.... Secondly, there's a very big danger that within a big idea, there may be small ideas that aren't adequately discussed and understood, like the time bomb that was the Chapter 11 dispute settlement mechanism, which we buy into without knowing what the consequences are going to be. My conclusion is fairly simple, unspectacular, and maybe not attractive. It's to go issue by issue, to be more cautious, to deal with the issues that have to be dealt with.

Stephen Clarkson, University of Toronto,
Evidence, Meeting No. 77, May 7, 2002.

A. The Debate Over Additional Integration

Recently, a debate over the merits of additional formal economic integration has been engaged. As the Committee has already observed, American reactions to the September 11, 2001 terrorist attacks have lent a new impetus to ongoing discussions about the future shape of Canada-U.S. economic integration. Generally speaking, proponents of economic integration stress the administrative and efficiency cost-savings associated with eliminating rules of origin, border controls and other barriers to trade. The deepening of integration that has occurred in North America has led trade analysts such as Michael Hart and William Dymond to suggest that the complex rules governing trade and cross-border exchanges "stand in the way of more beneficial trade and investment. Cumbersome rules of origin, discriminatory government procurement restrictions, complex anti-dumping procedures, intrusive countervailing duty investigations, burdensome regulatory requirements, vexatious security considerations, onerous immigration procedures, and other restrictive measures remain in place, discouraging rational investment decisions and deterring wealth-creating trade flows."[162]

Hart, in subsequent testimony before the Committee, noted that Canada and the United States were "trying to manage a common market on the basis of the rules, institutions, and procedures of a free-trade area."[163] Advocating a high-profile, formal NAFTA-plus agreement, he called on the two governments to "manage the relationship and strengthen institutional and procedural frameworks to iron out differences, reduce conflict, anticipate change, seize opportunities, and generally manage the integration process."[164]

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[162] Michael Hart and William Dymond, *Common Borders, Shared Destinies: Canada, the United States and Deepening Integration*, Centre for Trade Policy and Law, Carleton University, 2001, p. 3.

[163] *Evidence*, Meeting No. 55, February 5, 2002.

On the other hand, critics of formal economic linkage stress the loss of sovereignty in trade and other policy areas that further integration might entail. As one informed observer of North American integration put it, the political concerns of becoming even more closely aligned with the United States have already prevented the Government of Canada from actively promoting closer ties.[165] Don Barry of the University of Calgary cautioned the Committee that not only would an additional formal integrative arrangement be difficult to reverse; once in place it would exert great pressure for even further integration.[166] And we have already noted the warning from Robert Keyes of the Canadian Chamber of Commerce that "reopening NAFTA could also be fraught with difficulties.... It might lead to a reopening of discussions that we would rather not have, or we could face new demands, or we could have issues put on the table that were left out before."[167]

Another area of concern is more general: that if there is more concentration on regional trading blocs (whether the EU, NAFTA or APEC), the multilateral trading regime overseen by the World Trade Organization could be weakened. The evidence for this last theory, however, is inconclusive; many analysts hold that the emergence of trading blocs based on free trade could actually strengthen the international trading system.

The advances in European integration through an expanding European Union have also spurred speculation on the viability of a similar North American economic "community" or even union of some sort. Complicating the integration question for Canada is the fact that Canada (like Mexico) is dwarfed economically, militarily and demographically by the United States. Such an imbalance, already present in the everyday calculations of Canadian policymakers, would make the negotiation of further economic integration a difficult task, to say the least. It would have to overcome an existing bias in which, as Reg Whitaker put it: "The vastly disproportionate weight of the U.S. within NAFTA means that where political decisions are being made, they are almost invariably the decisions of the U.S. administration and Congress, the courts, and various administrative and regulatory agencies of the U.S government...."[168] Indeed, an important question that remains to be answered is whether, given the power imbalance, the EU example has any relevance for Canada.

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[164] Ibid.

[165] Beatty (2001), p. 8.

[166] *Evidence*, Meeting No. 80, May 8, 2002.

[167] *Evidence*, Meeting No. 89, June 11, 2002.

[168] *Evidence*, Meeting No. 76, May 6, 2002.

There is also the apparent lack of incentive for the Americans to launch a formal deepening of continental economic integration. Given the difference in size in the North American economies and the fact that U.S. merchandise exports to Canada contribute a scant 2% of that country's GDP, what is in it for the United States? It would appear that such "big ideas" as a customs union are not on the U.S. radar screen, in contrast with the smooth movement of goods across the border, which is. That impression was reinforced by the Committee's own meetings in Washington. Indeed, as Doris Meissner of the Carnegie Endowment put it in a final roundtable, "smart border" measures are "the only area right now where there is U.S. political will to move ahead."

That was also a common view among witnesses in Canada. For example, Professor Barry saw little evidence that the U.S. administration is interested in such big ideas.[169] William Kerr of the Estey Centre for Law and Economics in International Trade felt that these new arrangements were premature in any event, since "the full adjustment to the changes brought by NAFTA have not yet been accomplished."[170] Stephen Clarkson was strongly sceptical about whether Canada should want to devote its energies to the "big idea" approach, arguing that the U.S. administration would not respond to any new overtures from Canada and that buried in these types of proposals would be "small ideas that aren't adequately discussed and understood, like the time bomb that was the Chapter 11 dispute settlement mechanism, which we buy into without knowing what the consequences are going to be."[171]

Another issue is that, even if there were interest on the part of the Americans (and Canadians) in formally deepening continental economic ties, it is not clear that the preference would be for a trilateral, "one-speed" approach to integration. Under this approach, efforts to integrate further would be undertaken jointly (i.e., all three NAFTA partners participating) rather than on two different tracks (i.e., a Canada-U.S. as well as a Mexico-U.S. one).

Many policy-makers in both the United States and Canada continue to view NAFTA as a "double-bilateral," "two-speed" form of integration as opposed to a trilateral agreement. In the former case, an invitation could perhaps be extended to Mexico, but only once it was "on a solid path to modernization."[172] The Government of Canada, for instance, continues to place considerable priority on bilateral relations with each NAFTA partner at a time when relations with Mexico have risen in importance. For many other observers as well, a bilateral approach for cooperation is deemed to be preferable to one incorporating all three countries. Robert Keyes of the Canadian Chamber of Commerce told us that the Canada-U.S. relationship was considerably more advanced than the relationship we have with Mexico and that the former, therefore, had to be accorded priority.[173] Michael Hart agreed, arguing that Canada and Mexico should move ahead in parallel (not joint) efforts to integrate until such time as their interests are more identical.

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[169] Ibid.

[170] *Evidence*, Meeting No. 83, May 10, 2002.

[171] *Evidence*, Meeting No. 77, May 7, 2002.

[172] *Evidence*, Meeting No. 88, June 6, 2002.

Other witnesses, however, differed in their choice of integration model. Gordon Mace viewed the adoption of a two-speed integration model as dangerous, in that it resurrects fears of the "hub and spoke" (the United States being the hub and Canada and Mexico the spokes) negotiating that NAFTA sought to avoid in the first place.[174] Several witnesses suggested that having two countries (i.e., not just Canada) negotiating with the United States could prove to be helpful, with Mexico serving as an additional counterweight to American interests. Others noted that even if the realization of a truly trilateral North America were to remain a long-term objective, Canada could begin to develop trilateral mechanisms for discussing common interests in such areas as migration, security, energy, and labour.

If a change in the North American economic relationship is desired, what shape should this change take? Should integration proceed following a traditional "top-down" analytical framework of moving from a free trade area to a customs union to a common market to a potential economic and monetary union, based at least partly on developments in Europe? Or should integration occur incrementally, dealing with problems on a case-by-case basis and in a less formal manner, without a guiding framework? Alternatively, is some blending of the two approaches desirable? The next section describes the options available and their relative merits.

B. Top-Down Integration Options

One option would be to follow the European lead and adopt a logical progression, from free trade arrangement (the weakest form of integration link) to customs union to common market to economic union.[175] Presumably, some kind of international treaty among the three NAFTA members, or alternatively between Canada and the United States, would be required to formalize the new relationship.

1. Customs Union

First, a customs union could be created. Under such an arrangement, participating countries would undertake to remove all restrictions on mutual trade and adopt a common external tariff (and joint quota regime) for non-member countries. Currently, many goods circulating within the NAFTA economic space are produced either wholly or in part outside the free trade area, requiring rules of origin to determine what is free of duty and what is not. Without these rules in place, firms would have an incentive to route imports into the free trade area through the country possessing the lowest external tariff.

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[173] *Evidence*, Meeting No. 89, June 11, 2002.

[174] *Evidence*, Meeting No. 60, February 26, 2002.

[175] This progression is carefully explained in Rolf Mirus and Nataliya Rylska, *Economic Integration: Free Trade Areas vs. Customs Unions*, Western Centre for Economic Research, 2001, p. 3-6.

Goods shipped across North America typically require extensive documentation in order for each country to apply its own tariffs to goods or components produced outside the NAFTA area. In a customs union, however, imports would face the same tariffs anywhere in the union; compliance with rules of origin to prove that an item was produced in North America would no longer be required. Once the item had been cleared for entry into the NAFTA economic space, it could then be shipped between NAFTA countries without any difficulty or intervention.

A customs union involves participating nations surrendering some degree of policy freedom (i.e., the establishment of common external tariffs and a common external trade policy) to achieve some economic benefit (i.e., elimination of the need for rules of origin). The Committee was informed, however, that while a harmonized tariff schedule would likely result in Canadian tariffs being brought down to U.S. levels, almost 40% of tariff items are already within 1% of each other. Moreover, as Professor Barry Scholnick of the University of Alberta noted, these tariff reductions would affect only the 20% of Canada's trade that occurs with countries other than the United States and Mexico.[176] In other words, tariff harmonization would not appear to be that problematic.[177] According to Michael Hart, the "1% creates a requirement for rules — and therefore for paperwork — that is the equivalent of 3% or 4% as a tax."[178]

Another matter is the harmonization, among NAFTA partners, of external trade policy in general. A NAFTA-based customs union would likely operate, like the EU, as a bloc in future international trade negotiations. A member country's ability to act independently in its external trade policy would, therefore, be affected. The Atlantic Provinces Chamber of Commerce suggested that "Canada and the U.S. would have to arrive at internal consensus on positions for broad trade negotiations, or, at the very least, narrow their differences significantly."[179] Professor Rod Hill of the University of New Brunswick in Saint John expressed his concern to the Committee that under the customs union option, trade policy would be set in Washington.[180] The Canadian Chamber of Commerce also questioned Canada's ability to act independently of its NAFTA partners within such a union. For example, its current supply management regimes in agriculture could be threatened.[181]

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[176] Barry Scholnick, Comments provided to the Committee, May 9, 2002.

[177] *Submission*, Atlantic Provinces Chamber of Commerce, Presentation on the North American Relationship and the G8 Agenda, February 27, 2002.

[178] *Evidence*, Meeting No. 55, February 5, 2002.

[179] Ibid.

[180] *Evidence*, Meeting No. 63, February 28, 2002.

It should be noted as well that trade and economic measures have grown in importance as means of implementing foreign policy in recent years, and the establishment of a customs union would involve the harmonization of part of our foreign policy. Consider the fact that Canada maintains commercial ties with Cuba and Iran, for example, although both are under an American embargo.

On the positive side, elimination of rules of origin should result in significant administrative cost-savings at the border and in efficiency gains. Reducing the need for border inspections and lowering the amount of paperwork required could result in significant savings amounting to 2% to 3% of NAFTA GDP, according to several witnesses. Professor Louis Balthazar of Laval University suggested that a customs union with the United States is eventually inevitable, given the tremendous economic integration that currently exists and the need to avoid the costly border delays already experienced immediately following the events of September 11.[182]

Establishment of a *full* customs union would also deal with a major Canadian irritant, namely the American propensity to use domestic trade remedy legislation as a protectionist device. Such a union would entail the use of common NAFTA trade remedy mechanisms (e.g., anti-dumping, countervail) against non-NAFTA countries, as well as preclude the use of such mechanisms within the customs union. Simply put, under a full customs union, the United States would not be able to apply countervail or anti-dumping duties on any of its NAFTA partners. To quote from Alfie Morgan of the Windsor and District Chamber of Commerce, "a customs union would at least go a long way to reduce the trade irritants. It would open up the flow of goods a little more."[183]

However, as certain observers such as Professor Hill[184] fear, the United States might insist on maintaining its right to use such trade remedies as countervail and anti-dumping duties on internal NAFTA trade. The Americans could also continue to apply non-tariff barriers (e.g., health inspections, safety requirements) to Canadian exports.[185]

Even so, economist Richard Harris of Simon Fraser University argues in a recent discussion paper on North American economic integration prepared for Industry

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[181] *Submission*, Canadian Chamber of Commerce, Canada-U.S. Economic Integration: Directions for the Future, June 2002.

[182] *Evidence*, Meeting No. 60, February 26, 2002.

[183] *Evidence*, Meeting No. 81, May 9, 2002.

[184] Ibid.

[185] Canadian Chamber of Commerce (2002).

Canada[186] that there would still be economic benefits (in the form of a lowering of administrative and transaction costs) to implementing an *intermediate* NAFTA customs union. Under this option, Canada, the United States and Mexico would adopt a common external tariff and harmonize other international trade policies, but NAFTA countries could still apply anti-dumping and countervailing duties at their internal borders. In his appearance before the Committee, Harris went so far as to refer to the rules of origin as an effective barrier to trade at this time of increasing vertical business integration.[187]

Finally, Harris suggested that instead of officially converting NAFTA from a free trade agreement to a customs union, one could apply the customs union principles to those industries most in need of relief from the rules of origin.[188] Sean Cooper and Alfie Morgan both suggested that the highly integrated North American steel industry could be used as a prototype for a customs union. They noted that this industry displays considerable cross-border ownership, sourcing of raw materials, and common union representation. Such a prototype, according to them, would gauge the impact on Canada of a possible move to a common external tariff.

That view also received support in Mexico City from Rafael Rubio, Chair of the International Affairs Committee of the Mexican Steel Producers' Association, who noted that there is for the first time a Canadian president of the North American Steel Council. In this highly integrated sector of the North American economy, he argued it is time to move away from temporary measures and trade remedies towards long-term solutions; in his words, "a customs-union type [of] situation [is a] step we have to take." There may be other sectors where the prospect of pragmatic movement in a NAFTA context towards a common external tariff merits consideration by Canadian policy-makers.[189] The Committee, therefore, agrees that these possibilities should be thoroughly investigated with a view to establishing what next steps could clearly serve Canadian interests.

2. Common Market

The three countries could eventually also form a common market, in which capital, individuals, goods, and services flow freely between member countries. Currently, borders within NAFTA are serving as a barrier. Increasing labour mobility is really the principal objective at this stage of the integration process, with additional mobility seen to enhance economic efficiency and income growth. A common market would remove all obstacles to the temporary or permanent movement of citizens between member countries.

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[186] Richard G. Harris, *North American Economic Integration: Issues and Research Agenda*, Industry Canada Discussion Paper Number 10, April 2001.

[187] *Evidence*, Meeting No. 76, May 6, 2002.

[188] Ibid.

[189] We cite, for example, the submission to us by the Canadian Chemical Producers' Association of their October 2002 report, *Strengthening the North American Economic Partnership: A Report on Issues and Opportunities for the Industrial Chemical Sector*.

A common market is also often associated with a convergence of fiscal and monetary policies and a dismantling of non-tariff barriers such as the regulatory treatment of product standards. In a common market, the level of policy harmonization among member countries can be significantly enhanced.

The EU experience would suggest that a common North American market would provide the three NAFTA partners with sizeable benefits in the form of heightened competition and increases in productivity.[190] One common concern, however, is that the elimination of barriers in the form of a common market, without a prior convergence of incomes throughout that market, could result in extremely large cross-border migration from relatively poor Mexico to the United States. The concern here is that the infusion of large numbers of Mexican migrants would put at risk the standard of living in the wealthier countries, principally the United States.[191] This same phenomenon has not been experienced in Europe, where migration across member state borders and even between regions within a single country has historically been weak owing largely to cultural and language factors. The income gaps present in Europe have not been sufficient to overcome these factors. Finally, another point to consider is that a common market would necessitate the creation of a range of bilateral or NAFTA-based political and legal institutions that simply do not now exist.

The establishment of a common market would be welcomed by a number of witnesses appearing before the Committee. Sean McCarthy of the Newfoundland and Labrador Branch of the Canadian Manufacturers and Exporters stressed to the Committee the urgent need for greater two-way mobility of human resources across the Canada-U.S. border.[192] Also in favour was Professor George MacLean of the University of Manitoba, who felt that Canada could benefit from mobility of goods, services and labour and from the elimination of onerous trade remedy legislation (e.g., countervail, anti-dumping) within North America — advantages that would be made possible through a common market.

3. Economic Union

A third and deepest form of economic integration would be the development of an economic union, within which competition, structural, fiscal, and monetary policies are harmonized. Supranational institutions and laws (replacing national law) would be needed to regulate commerce within the union, and transportation, regional, and industrial policies would typically be coordinated. Such a union could include the use of a common currency, possibly the U.S. dollar, and the adoption of a unified monetary policy. This topic is discussed in the next section of this chapter.

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[190] Barry Bosworth, *Integrating North America: Lessons from Europe*, Discussion notes for the Brookings Institution December 2001 conference on North American integration, p. 5.

[191] Herbert Grubel and Fred McMahon, "Creating a Common Frontier for North America: Opportunities and Problems," *Fraser Forum*, March 2002, p. 18.

[192] *Evidence*, Meeting No. 58, February 25, 2002.

The creation of the European Union has, no doubt, spurred some to investigate the viability of a similar North American economic union. For instance, Mexican President Vicente Fox has advocated a move toward a European-style customs union and common market and other key features of closer integration such as common monetary policies and improved policy coordination among the three countries.

Also included in Fox's "Vision 2020" was a fund to address economic disparities between Mexico — especially its poorer southern regions — and its NAFTA partners, similar to the EU's social cohesion funds dispensed to countries such as Spain, Portugal, Ireland and Greece.[193] Ideally, from Mexico's perspective, the source of the funding would comprise a refurbished NAFTA instrument, the North American Development Bank. Others, however, insist that the Inter-American Development Bank serve this function. As of yet, there does not appear to be a consensus in either Washington or Ottawa for the establishment of any additional North American fund or financing mechanism to address Mexican development needs. We will return to this in Chapter 5.

The Committee received virtually no evidence on the merits (or demerits) of an economic union in North America. Perhaps that is an indication that it is simply not seen to be a realistic prospect in the foreseeable future. One witness who did comment specifically on this subject, Professor MacLean, expressed his opposition to the concept, arguing that "it's not clear at this time that harmonization of social or currency policy between Canada and the United States would be practical or even desirable."[194]

4. The Blurring of Formal Options

The above, seemingly clear compartmentalization is not always evident in real life. In practice, not all applications of the different stages of integration display the same level of supranational co-operation. For example, in the critically important (for Canada) area of trade remedies, Canada continues to push for greater cooperation in the use of trade remedy measures (e.g. anti-dumping, countervail) in North America, with many Canadians believing that NAFTA did not satisfactorily address these issues.

These trade remedy actions seem inconsistent with the growth of free trade, and there is room for considerable progress in eliminating their use within this continent. The real question to consider, however, is whether or not the United States will agree to proposals for change. It is not certain that the implementation of a customs union, for example, would eliminate the application of the trade remedy regime to countries that were members of that union.

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[193] In essence, what has been proposed by Mexico is the establishment of fiscal transfers from the north to the south in line with similar European transfers.

[194] *Evidence*, Meeting No. 75, May 6, 2002.

C. "Bottom-Up" Approaches

Even before the events of September 11, business groups were raising concerns that NAFTA could be made to work better. It bears reiterating that the list of existing NAFTA irritants is long: abuse of anti-dumping and countervailing duty procedures, other non-tariff trade disputes, rules-of-origin complexities, government procurement restrictions, antiquated U.S. maritime laws that restrict Canadian firms from entry into U.S. shipping and shipbuilding markets, and differences in requirements for product standards, labelling, testing and certification, to name a few.

Moreover, in the face of economic integration, transborder environmental, migratory, and transportation issues, North American cooperation is necessary for each country to pursue many of its economic, social, environmental and security objectives. With respect to transportation, for example, the growing burden on existing transportation corridors needs to be addressed. Coalitions of business interests and government officials have lobbied for at least 11 trilateral trade corridors as part of an integrated transportation and infrastructure plan.

Two options for incremental, less formal change are possible. Richard Harris pointed out in his Industry Canada paper that the integration of North America is proceeding outside a formal common market framework, and that certain areas are already experiencing pressures for policy convergence or harmonization. These pressures will grow as the Canadian and American economies inevitably integrate further.

Given this reality, Harris suggests examining more informal mechanisms to facilitate cross-border mobility within the NAFTA region and to bring about gradual policy convergence. This "bottom-up" approach involves convergence in a number of policy areas such as border issues, transportation, labour mobility, tax competition, exchange rates, regulation and competition policy, administrative trade policy (e.g., anti-dumping, countervail), environmental and resource issues, and intellectual property rights.

By engaging in an incremental process of harmonization, as has begun to occur in customs and immigration procedures since September 11, Canada could (according to Harris) end up with a form of integration that begins to approach a more structured common market arrangement. Harmonization of North American policies in the above areas could continue to be achieved through bilateral or trilateral agreements. Under this framework, changes would be undertaken because they would increase Canada's prosperity and help address the country's social and economic needs.

Another option, which recognizes the need for improvements in the North American relationship while setting out a realistic course of action, is what Daniel

Schwanen calls "interoperability," in which each country keeps its own policies and systems but ensures that these allow each "to cooperate effectively on an ongoing basis in areas where their deep interdependence means that lack of cooperation could entail serious losses."[195] According to Schwanen, "Such an [interoperability] agreement could help strengthen mutually beneficial economic and security relationships without compromising the existing powers of domestic legislatures."[196]

Schwanen sees such interoperability as resting on four pillars:

- the need to recognize and address practices in each country that entail significant risks for the legitimate interests of another. For example: security risks, preventing infringement of one's own laws while addressing any threats to its partners that could stem from cross-border movements;
- "improved management of less-threatening differences, such as standards, qualifications, or policies, that can also cause friction as products and individuals cross borders," through such concepts as mutual recognition (e.g., each country recognizes the other country's standards) and the creation of fact-finding arbiters modeled on the Commission for Economic Cooperation. Of course, the success of this pillar would depend on U.S. willingness to address less-threatening differences. As the case of softwood lumber demonstrates, such willingness is often in short supply;
- "greater basic cooperation in the setting of standards and regulations themselves and in streamlining various regulatory approval processes when the broad policy objectives underlying the standards are patently the same across borders." As with the objection to the viability of North American supranational political institutions, the concern here would be that the United States, in its role as the continent's hegemon, will be less interested in common standards and regulations than in the Canadian adoption of American ones; and
- "better connectivity and compatibility in transportation infrastructure."[197]

1. Regulatory Issues

On the topic of regulation, while market and production systems are becoming increasingly integrated, businesses are facing non-tariff barriers in the form of separate standards (e.g., health and safety, packaging, electrical standards, emission controls, food testing, language), regulations, labelling requirements, etc. Inevitably, these mean higher costs, duplication, delays, etc. Each of these forms of regulation imposes a cost on trade that is equivalent to tariffs. Before a good can cross a border, it may have to be modified physically, relabelled, or its origin and components certified.[198]

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[195] Daniel Schwanen, "Interoperability, not Convergence," *Policy Options*, November 2001, p. 47.

[196] Ibid., p. 49.

[197] Ibid., p. 49.

There are essentially three ways to resolve this problem: mutual recognition, harmonization, and common policies. In Europe, efforts to harmonize regulations, found to be expensive and inefficient, were replaced with an agreement that each government would recognize the regulations put in place by the other governments. Under this mutual recognition scenario, if a good met the standards of Country A, then it could enter Country B without restrictions, as long as A also accepted goods produced according to the standards of Country B.[199] For its part, the Vancouver-based Fraser Institute has called for the harmonization of regulatory policies, or mechanisms for joint recognition of regulatory policies, in the fields of transportation, the environment, endangered species, energy, competition law, and pharmaceuticals. We note that Minister for International Trade Pierre Pettigrew has advocated a move to mutual recognition of regulation in his October 16 address to the Canadian-American Business Council.[200]

Several witnesses appearing before the Committee advocated moving to greater regulatory harmonization. For example, Alfie Morgan called for Canada "to harmonize our standards, to harmonize the procedures so that they'll be predictable for business people and therefore the movement of trade will be predictable as well…."[201] Guy Stanley of the University of Ottawa concurred with this approach, arguing that initiatives "should be designed to bring the networks and industries that are so important economically under a common set of rules. In some cases, that would imply going beyond national treatment."[202] He gave the environment, financial services, telecommunications, and agriculture as examples of areas where greater convergence of operating rules and regulatory standards would enhance North American prosperity.

On the other hand, Robert Keyes of the Canadian Chamber of Commerce and Danielle Goldfarb of the C.D. Howe Institute argued for a mutual recognition approach to regulatory issues: "The advantage of mutual recognition is that it requires us to say we recognize your standards as appropriate standards and you recognize our standards as appropriate standards. That doesn't mean you have to change your standards or we have to change our standards. I think that is potentially much more politically feasible, and it doesn't require us to harmonize to the U.S. standard. That's a potential way of moving this relationship forward and ensuring more secure access to the U.S. market while avoiding this issue of requiring harmonization."[203] It was suggested that mutual recognition could be undertaken on either a sector-by-sector or commodity-by-commodity basis.

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[198] Grubel and McMahon (2002), p. 19.

[199] Beatty (2001).

[200] "The Canada We Want in the North America We are Building" (2002).

[201] *Evidence*, Meeting No. 81, May 9, 2002.

[202] *Evidence*, Meeting No. 90, June 13, 2002.

[203] *Evidence*, Meeting No. 77, May 7, 2002.

Michael Hart also supported mutual recognition, suggesting that there was "no need for Canada and the United States to harmonize regulations, but much benefit is to be gained from a process whereby we mutually recognize each other's regulations, because for most of those regulations, the differences are very small and are the result of history, legislative differences, and so on."[204]

Recommendation 30

When evaluating measures to ease the burden that different regulatory systems can impose on companies undertaking business in North America and to avoid the drawbacks of regulatory harmonization, the Government of Canada, in consultation with the provinces, should seriously consider entering into agreements with its NAFTA partners to implement mutual recognition schemes for existing regulations. Under such arrangements, countries would recognize each other's regulatory standards as appropriate, thereby facilitating cross-border commerce.

2. Transportation Issues

Given the volume of Canada-U.S. trade, an efficient and cost-effective transportation system over our shared border is needed — whether using ground (highways, bridges and rail), air, or marine transportation — at points in all regions of Canada. One of the challenges associated with a network of North American trade corridors is to develop the partnerships needed among federal departments, between federal and provincial levels of government, between Canada, the United States, and Mexico, and between the private and public sectors. A greater focus on a broad-based infrastructure program would support the quest of many for a comprehensive, integrated, intermodal national and North American transportation system. It would also demonstrate to NAFTA partners our commitment to facilitating trade and would enhance opportunities for improved cross-border transportation links.

Such integration might be particularly important in such transportation sectors as rail, where an integrated North American rail industry is already developing, and trucking, where both countries are striving for harmonized regulation and the seamless movement of goods. In the case of rail, transborder options were not hampered by the events of September 11. A streamlined, electronic exchange of rail traffic information data already takes place in advance of the border crossing. For these reasons, the Railway Association of Canada has argued that the rail mode possesses a "comparative advantage" for the transborder movement of goods.[205] Action is urgently needed, however, in removing the inconsistencies in safety standards that exist across the border, which is also a problem plaguing the trucking industry.

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[204] *Evidence*, Meeting No. 55, February 5, 2002.

An integrated continental plan to enhance transportation links between the three NAFTA countries could incorporate common vehicle safety standards as well as eliminate restrictions against domestic carriage (e.g., airlines) by foreign providers. If harmonization of standards proves difficult, an alternative would be to arrive at minimum standards and then have each country recognize each other's standards (mutual recognition). Regarding air transportation, John Furey of the Saint John Board of Trade advocated the introduction of cabotage into Canadian air transport policy.[206] Under a system of cabotage, foreign carriers would be able to transport Canadian passengers between two Canadian destinations.

In recent years, various Canadian local governments, businesses and trade-related organizations have formed corridor associations, often with participation from their American counterparts, to promote the economic interests of their regions by facilitating transportation and thereby fostering trade, tourism and investment. An important contributing factor in the formation of these corridor associations has been the *United States Transportation Equity Act* for the 21st Century (TEA-21), which has authorized up to US$219 billion for surface transportation programs over the next five years. Of this, $700 million in total ($140 million annually) will be directly dedicated to corridor and border projects. These programs are financed through the Highway Trust Fund, which collects a portion of the fuel tax and sets it aside for highway improvements.

Recognizing the importance of corridors to trade facilitation and economic development, in 1997 the Canadian government formed an Interdepartmental Working Group on Trade and Transportation corridors, which serves as a focal point for consultations and exchange of information with provinces, stakeholders and corridor groups, and as a mechanism for coordinating efforts with the U.S. Department of Transportation, particularly with respect to the border infrastructure and corridors program, but also vis-à-vis Intelligent Transportation Systems (ITS) deployment, reciprocal recognition of standards, research and data compilation.

Sean Cooper discussed "fears about the way some things are going with trade corridor development across this country.... The fear that we have out this far east is that the federal government, in looking at that trade corridor, as they see it move down through that area into New York from Quebec, will take it as the eastern corridor. That again cuts off New England and Atlantic Canada, so we want to make sure the Trans-Canada highway from St. John's to the border in New Brunswick and down through

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[205] *Submission*, Railway Association of Canada, June 2002.

[206] *Evidence*, Meeting No. 63, February 28, 2002.

Maine, down through to New York, remains high on the priority list for trade corridor development in this country."[207]

Canada's Strategic Highway Infrastructure Program, announced in the February 2000 Budget, will allocate $600 million to highway infrastructure beginning in 2002, with $63 million allocated specifically for improvements at or near border crossings. Moreover, funding for ITS deployment will be available to promote more efficient use of existing infrastructure. The December 2001 Budget announced $600 million over five years for a new border infrastructure program to ensure there is sufficient capacity to assist trade at our major border crossings. Through partnership with provinces, municipalities and the private sector, the federal government will help finance infrastructure improvements at or near the border. These improvements might include: new or improved highway access for border crossings; processing centres for commercial vehicles to expedite clearance times; and ITS. Canada will also work with the United States to ensure a co-ordinated approach towards border infrastructure.

Infrastructure modernization is only one component contributing to corridor development. Federal policies and initiatives have also centred on other components such as: the harmonization of standards; the Canada Customs and Revenue Agency's Customs Self-Assessment program; and the development of a framework for the coordination of transportation initiatives and border infrastructure modernization, based on principles contained in the Memorandum of Cooperation signed by Transport Canada and the U.S. Department of Transportation.

D. Where To From Here?

Wendy Dobson (and others, including some of the Committee's witnesses) called for Canada to negotiate a customs union with the United States, a common market, or some agreement that would enable Canada to achieve the benefits of a single North American economy.[208] This visionary, "big idea" approach would, ideally, provide Canada with greater assurance of access to U.S. markets. To be acceptable from a Canadian standpoint, the new arrangements would have to include the abolition of anti-dumping and countervail rules. In exchange, Canada would likely have to support even closer continental defence and security arrangements, common policies on the border, immigration, energy, and so on, as determined by the negotiation of such a "strategic bargain". Underlying the logic of this argument is that pursuing an economic goal of deeper bilateral integration without taking into account U.S. security preoccupations is a non-starter. Of course, it also presumes the goal itself is a desirable policy aim in terms of Canadian interests.

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[207] *Evidence*, Meeting No. 61, February 27, 2002.

[208] Wendy Dobson, "Shaping the Future of the North American Economic Space: A Framework for Action," C.D. Howe Institute, *Commentary* No. 162, April 2002.

As this report has already indicated, a number of our witnesses would contest both the assumptions behind and the propositions contained in such a "bargain". Some were also uncomfortable with this "big idea" approach, as much for reasons of strategic pragmatism as of philosophical difference. Instead, they chose to advocate a more cautious, incremental path to managing North American integration realities, one designed to safeguard as well as advance Canada's best interests.

The Committee takes the view that additional policy measures that have the potential to produce significant net benefits for Canada through greater continental economic integration are "legitimately on the table for debate", as Reg Whitaker put it so astutely.[209] In that regard, elements of both more "visionary" and incrementalist approaches may have to be considered. As Antonio Ortíz Mena of the Centro de Investigación y Docencia Económicas advised the Committee in Mexico City, devoting full attention to "the big ideas" could result in postponing measures required in the short term (e.g., transportation infrastructure, cabotage, development of a North American trucking regime, decentralization of borders, improvement in dispute settlement, gradual convergence of external tariffs). Other immediate measures supported by some of the witnesses appearing before the Committee have already been identified in this report.

While these actions are being implemented, debate over the relative merits of the bolder "big idea" policy changes could be launched. The Committee received considerable evidence, both pro and con, on the idea of a North American customs union. While the Committee has not taken a position on this matter, we believe that it would be useful for the federal government to undertake a detailed assessment of the potential advantages and disadvantages of this option. In connection with such a study, the already largely integrated North American steel industry might be assessed as a possible prototype among others for a broader customs union of some kind.

Recommendation 31

The Government of Canada should consider undertaking a two-track approach to North American economic integration. Identified barriers to more efficient conduct of cross-border business should be removed in an incremental manner in conjunction with Canada's NAFTA partners. While the Committee has taken no position on the merits of a North American customs union, we believe it would be useful for the Government concurrently to initiate a detailed review of the advantages and disadvantages of the concept in the North American context. The review could include an assessment of the use of the integrated North American steel industry, among others, as a prototype for a broader customs union of some kind.

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[209] *Evidence*, Meeting No. 76, May 6, 2002.

4.6 Towards a Common Currency?

WHAT WITNESSES SAID

The position of the Canadian Chamber has been that it is entirely appropriate to continue with a floating exchange rate given the significant differences in the underlying structure of the Canadian and U.S. economies. It may be that in a decade or two, the Canadian and U.S. economies may become more similar in structure. In that case, the advantages of having a floating exchange rate may diminish and alternative exchange rates can be explored.

Canadian Chamber of Commerce,
Submission, Ottawa, June 2002.

It is not untrue to say that the Canadian currency is still based on our natural resources and that the Canadian economy is still based to a much larger extent than the American economy on natural resources. It may be less than it once was but it is still the case and that means that we must have monetary flexibility for the simple reason that the price of our natural resources, the price of our exports may decrease. In such a case, we need a cushion that allows us to export something else, that allows us to export manufactured products. This particular cushion is the Canadian dollar.

Daniel Schwanen, Institute for Research on Public Policy,
Evidence, Meeting No. 64, February 28, 2002.

Adopting a fixed exchange rate system, or, more fundamentally, establishing the NAMU would not eliminate the differences between our two economies. If it were impossible to adjust the exchange rate, the economic disturbances that affect Canada more would be felt more strongly on our labour market. There are therefore grounds for fearing that the Canadian unemployment rate might become more volatile.

Benoît Carmichael, Laval University,
Evidence, Meeting No. 60, February 26, 2002.

Some experts are suggesting that Canada should adopt the U.S. dollar as our common currency. I think that would effectively lock in our losses in real income and eliminate any flexibility the Bank of Canada now has to effect monetary policy. ... the debate around dollarization now focuses on the symptoms of Canada's economic malaise, not its root cause, which is our lagging productivity performance.

Jayson Myers, Canadian Manufacturers and Exporters,
Evidence, Meeting No. 55, February 5, 2002.

It always makes me laugh to hear the word "common". If we are talking about adopting the American dollar, I do not see how that can be called a common currency. It is the currency of another country.

Richard Ouellet, Laval University,
Evidence, Meeting No. 60, February 26, 2002.

I think it is necessary for us to make sure we know what we are getting into. How we go about it, of course, is up to you people to decide, but we need to be looking at it, we need to study what effects it will have on our competitiveness in the global market. We also want to make sure we keep our identity and we are noted as being players in the world economy.

Sean Cooper, Atlantic Provinces Chamber of Commerce,
Evidence, Meeting No. 61, February 27, 2002.

With respect to a common currency, I do believe that it should not be treated as a taboo issue. I agree that it is something that should be studied.

Louis Bélanger, Laval University,
Evidence, Meeting No. 60, February 26, 2002.

A separate issue from the development fund is the monetary issue. There are three options for us. Option one is de facto dollarization. That is to say, no government makes a decision, and increasingly Canada and Mexico use the U.S. dollar. ... The number two option is de jure dollarization. Three governments all sit down and they decide the dollar makes sense: let's just use a single currency. The third option is a unified currency.... I think the most likely option is de facto dollarization ...

Robert Pastor,
Evidence, Meeting No. 56, February 7, 2002.

I predict that the currency will be very volatile in the absence of a formal change in the monetary regime, both volatile up and volatile down. I don't know where the long-run level will settle, but given that the Canadian dollar is increasingly a marginal currency from a global purpose standpoint, it means that relatively small movements in capital flows have very large effects on the value of the currency.

Richard Harris, Simon Fraser University,
Evidence, Meeting No. 76, May 6, 2002.

In turn, the only issue here is whether we choose to manage the currency question or whether it manages us over the next decade by the way of so-called dollarization.... At the end of the day, in ten or twenty years, we will be using the American dollar, but we will not have the benefits the big idea could have provided, the continued seigniorage, some influence at least over the governing body, and the dignity of having some control over our own future.

Gordon F. Gibson, Fraser Institute,
Evidence, Meeting No. 78, May 7, 2002.

A. Background on the Debate

Except from 1962 to 1970, when Canada's exchange rate with the United States was fixed, market forces have determined the value of the Canadian dollar since the Second World War. Since the collapse of the Bretton Woods system in 1971, when the United States delinked its dollar from gold, Canada's monetary system has been anchored exclusively by flexible exchange rates. No other developed country can claim such a long and mostly crisis-free track record with flexible rates.

In recent years, however, several factors have emerged to prompt a debate about whether Canada should seek a more fixed exchange-rate arrangement, in the form of either a currency union with the United States (and possibly Mexico) or the adoption of the U.S. dollar as the nation's currency, an option known as dollarization. No doubt the onset of Europe's economic and monetary union (EMU) and the corresponding introduction of the euro as that continent's primary currency have served to stimulate interest in a corresponding North American monetary union. Of arguably greater importance, accelerated weakness in the value of the Canadian dollar since the onset of the Asian financial crisis in 1997 has caused some observers to advocate greater exchange rate fixity for Canada.

The two above-mentioned monetary options are fundamentally different. Under dollarization, Canada would simply abandon its currency and adopt the U.S. dollar as legal tender. This option appears to have little support within the Canadian population, according to EKOS polling. (There is greater support for a new continental currency.) On the other hand, the currency union option would involve the creation of a common North American currency analogous to the euro, presumably after some period of operating under a fixed exchange rate. The likelihood of this option being selected is considered by many to be weak, in that it would involve convincing the United States to give up its own currency, to which it is deeply attached.

Even if Canada were able to negotiate a currency union with the United States and Mexico, it would almost certainly have to adopt a fixed exchange rate until the finer points of the transition to the new currency were worked out. Setting this peg could be a matter of considerable debate, especially since purchasing power parity calculations by the Organisation for Economic Co-operation and Development (OECD) suggest that the Canadian dollar should be trading closer to 84 U.S. cents than the 62 to 65 U.S. cents witnessed during the last year. If the fixed exchange rate were not carefully chosen, Canadians could find their real purchasing power diminished.

B. The Pros and Cons of a Common Currency

Any assessment of the merits and demerits of a common currency must, in the end, weigh the economic benefits against the economic and political costs. Although the issue is essentially economic, it is worth remembering that currencies are generally created to respond to political needs (e.g., solidifying ties among EU countries) as much as economic ones. In the end, however, the biggest obstacle to movement towards a fixed exchange rate, currency union, or dollarization-by-decree is probably political, boiling down to a question of how much Canada is willing to give up to enjoy the benefits that flow from using U.S. dollars.

1. The Case For

The case for a common currency tends to rest on two points: the microeconomic gains accruing through the removal of currency volatility and risk; and the argument that a flexible exchange rate provides businesses with a disincentive to make productivity improvements. In turn, the economic arguments in favour of a common currency usually rest on such potential for gains as:

- the elimination of transaction costs from exchanging one currency into another;
- a reduction in the volatility created by day-to-day fluctuations in currency values, and the elimination of uncertainty about the future direction of the currency;
- greater transparency of costs and prices between the countries involved; and
- the elimination of the interest rate risk premium on long-term interest rates.

Movement to a common currency, whether it be in a monetary union or otherwise, would eliminate currency fluctuations and provide Canadian exporters and importers with greater certainty on which to base their day-to-day and long-term decisions. As it stands now, the existence of three different currencies in NAFTA represents a substantial obstacle to trade and capital flows. Importers and exporters, tourists and business travellers, and the movers of capital between the countries need to buy and sell foreign currencies and deal with transactions costs and the volatility of exchange rates. Foreign exchange costs may be as high as one half of 1% in Canada and Mexico, less in the United States.[210] Economic efficiency, competitiveness and investment decision-making could all be enhanced as the risks associated with exchange-rate fluctuation and currency misalignment are eliminated. Both volatility and misalignment are problematic in that they contribute to greater uncertainty, which may permanently hamper trade and investment.

Proponents of a common currency also argue it could lead to lower interest rates on long-term government bonds. The logic here is straightforward: under a floating exchange rate, investors demand a "risk premium" to compensate for volatility and the potential for long-term declines in the currency. Consequently, a risk premium is built into the interest rate structure, and this has the potential to discourage investment, productivity and ultimately economic growth in the affected country.[211] Under a currency union, the potential for currency fluctuations and hence the risk premium cease to exist. The new, relatively lower interest rates could spur investment; this, in turn, should ultimately lead to higher productivity and growth.[212]

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[210] Grubel and McMahon (2002), p. 18.

[211] Morgan Guaranty Trust Company Economic Research, J.P. Morgan, *Monetary Union in the Americas*, Economic Research Note, , New York, February 12, 1999, p. 6.

[212] For this to be true, it must be assumed that the new central bank (or the Federal Reserve) does a credible job of managing monetary policy. It is, of course, entirely possible that the interest rate premium could rise if monetary policy after currency union is less credible than it was before.

Another benefit associated with reduced exchange-rate volatility would be greater transparency of costs and prices in both Canada and the United States. Under a floating exchange system, it is difficult to distinguish between changes in the exchange rate that are the result of real factors (such as changes in productivity) and those that are temporary or nominal. In the case of an appreciation in the value of the currency, this lack of transparency can lead to allegations of dumping or predatory pricing against foreign companies, not to mention large increases in import penetration domestically. As one expert has observed: "This issue would no longer arise under a fixed exchange rate regime; the level playing field would be easier for all to see, and confusion over real cost changes versus exchange rate changes would be reduced. This might reduce the existing tension over the application of U.S. antidumping and countervail laws against Canadian exports."[213] To the extent that a fixed exchange rate or common currency eliminated this problem, fewer trade disputes and greater economic efficiency, both of which should translate into lower costs, would be expected.

A common currency or fixed exchange rate could also lead to lower transaction costs because firms would no longer need to worry about hedging their U.S. dollar sales. One estimate suggests the gain from removing currency conversion costs could reach $3 billion annually.[214] Lower foreign-exchange transaction costs would lead to expanded trade, and Canada's income would consequently rise as the resources that used to be devoted to managing exchange risk could be redeployed to other areas such as production. The savings in the costs of foreign exchange could bring dynamic benefits greater than suggested by the initial cost reductions alone.

On the other hand, some have suggested that transaction costs related to foreign exchange may be exaggerated. Canada has had a flexible exchange rate system throughout most of the post-war period and still managed to develop the largest two-way trade flow in the world. Combined, the direct costs (e.g., the cost of conversion) and associated costs of operating in more than one currency (e.g., hedging, accounting) normally do not represent a major proportion of the total cost of carrying out business across national boundaries. For example, with respect to Canada's commercial dealings with the United States, we only have to "stop at one window" to obtain U.S. foreign exchange. Contrast this situation with that in Europe, where the gains from eliminating exchange rate uncertainty and transaction costs will be multiplied many times over, in line with the large number of currencies. There, the prospects of lower transaction costs and greater economic certainty because of reduced currency risks are much larger motivating factors in the move to a common currency.

Finally, some analysts argue that a monetary union with the United States would encourage wage and price flexibility as companies and employees in both Canada and the United States pay more attention to their North American competitive positions. This should, all things being equal, improve economic efficiency as wages and prices adjust more quickly and accurately to economic conditions.[215]

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[213] Richard G. Harris, "Trade, Money, and Wealth in the Canadian Economy," C.D. Howe Institute Benefactors Lecture, 1993, September 1993, p. 39-40.

[214] John Murray, *Why Canada Needs a Flexible Exchange Rate*, Paper prepared for a conference hosted by Western Washington University, April 30, 1999, p. 8.

Another claim often made by those who want to abandon the Canadian dollar is that Canadian firms have been sheltered from the full weight of foreign competition by a low dollar and thus have not made the productivity improvements that would lead to greater prosperity. This "lazy dollar" hypothesis, however, is controversial, and there appears to be little evidence to back it up.

Those advocating a common currency argue that the decline of the Canadian dollar over the past 25 years has been excessive and counterproductive to the country's economic aspirations. The existing currency regime, they suggest, has merely brought about a vicious cycle of currency devaluation and lower productivity, and a drastic decline in the Canadian standard of living. A common dollar, on the other hand, would help stop the erosion of our currency and productivity, the key factors underlying a country's long-term wealth.

The argument about the link between Canada's currency and productivity is twofold. First, empirical studies have shown that the value of the Canadian dollar over the past 25 years has closely followed the trend in commodity prices. As a result, flexible exchange rates have delayed the resource sector's necessary adjustment: the declining value of the Canadian dollar has shielded commodity producers from the full brunt of the drop in world prices and delayed the necessary movement of labour and capital out of the production of commodities towards other, more advanced, productivity-enhancing industries.[216] The difficulty in this development is that the long-term trend for commodity prices has been downward, yet our dependence on commodity exports — and thus an implied reduction in our standard of living — continues to be reinforced by current exchange-rate policy.

Second, it is sometimes argued that a weak dollar helps keep exports competitive without the need for increased productivity. Although a decline in the value of the national currency may provide Canada with a short-term competitive advantage, it puts less pressure on industry to make the required structural changes that might improve productivity. Moreover, if the technologies and equipment required to innovate have to be imported, any sizeable depreciation of the dollar will cause import costs to rise. A weaker dollar may also make it more difficult for firms to pay the competitive salaries needed to draw workers from abroad or keep their existing employees. Thus the persistent depreciation of the dollar's value has made Canadian companies less interested than they would have otherwise been in making the sound investments or hiring the workers they need to improve productivity. It has been suggested that, "In the Canadian case, the robust demand growth in the recovery plus the low exchange rate probably delayed appropriate productivity-improving investments in our manufacturing industry until much later in the decade [of the 1980s]."[217] Thus, it is argued, fixing one's currency to a stronger entity would take away the "competitive crutch" provided by the floating exchange rate.[218]

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[215] Thomas J. Courchene and Richard G. Harris, "From Fixing to Monetary Union: Options for North American Currency Integration," C.D. Howe Institute *Commentary*, 1999, p. 2.

[216] This argument hinges on two assumptions: first, it implies that the currency depreciation does not translate directly into higher domestic prices for other goods, especially inputs used by the commodity sector. If it did, domestic commodity producers would face rising production costs and would have to increase their prices to hold onto their profit margins (assuming constant demand), undoing some of the beneficial effects of the devaluation. Second, it assumes that the lower prices will either keep demand (in terms of physical units of the goods) constant or result in an increase in demand.

This perceived effect is known in the economic literature as the "lazy firm" hypothesis, because it assumes that companies are no longer interested in profit-maximizing behaviour. It assumes, in other words, that firms do not behave in the competitive, cut-throat way that economic theory says they normally do. After all, if the weaker currency does in fact give them an added temporary advantage, then theory suggests firms should maximize the opportunity to gain market share at the expense of competitors (which is implied by dumping complaints tied to nominal changes in the currency), all the while investing in new technologies. Even if the depreciation of the currency makes machine imports prohibitively expensive, there should be sufficient incentive for local firms to fill the gap. This was precisely the strategy pursued by Japanese firms during much of the post-war era, in both the Bretton Woods period and much of the 1980s.

Advocates of flexible exchange rates argue that the "lazy firm" hypothesis is a myth, pointing to examples such as Japan as proof. After all, they say, companies' boards of directors are paid to ensure that management is constantly on the lookout for ways to maximize profits and the firm's share value, no matter what the exchange-rate situation. If companies fail to operate in this manner, they will feel the sting of the market and jeopardize their competitive standing.

They also claim that the critics have not brought forward evidence of a cause-and-effect relationship between the Canadian dollar's long-term fall (in real terms) since the mid-1970s and weak productivity growth. In fact, they argue that the causality actually runs in the reverse sense: changes in productivity bring about changes in real exchange rates, and exchange-rate depreciations merely represent a symptom of declining economic welfare.[219] According to empirical research by the Bank of Canada and others, the decline in Canada's economic performance since 1970 can essentially be attributed to two factors: changes in commodity prices (leading to real economic shocks) and differences in Canadian and U.S inflation rates.[220]

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[217] Harris (1993), p. 36.

[218] There is some empirical support for the view that the weak currency has harmed Canada's productivity record. See, for example, "What Do We Do With The Dollar?," *Policy Options*, January/February 1999, p. 32.

[219] Murray (1999), p. 16.

Moreover, it is pointed out that not all the recent decline in global commodity prices has been offset by the depreciation of the Canadian currency. Whereas the decrease in commodity prices from the early part of 1997 to the end of 1998 (Asian financial crisis) was approximately 20%, the exchange rate fell by only 8%, with the result that commodity producers were not totally shielded from the outside shock. As such, labour and capital retained an incentive to transfer to other sectors of the economy, such as manufacturing. Thus the existence of flexible exchange rates has not totally restrained the industrial adjustments that otherwise might have occurred.

As a final point, common-currency proponents argue that flexible exchange rates have not served the country well: continuing weakness in the Canadian dollar suggests that currency markets sometimes do a poor job of signaling the correct price of currencies, and short-term currency speculation only exacerbates the tendency for currencies to overshoot and undershoot their "real" value (i.e., the value that reflects the underlying strength or weakness of the economy). If they last long enough, these misalignments can potentially harm productivity and long-term growth by delaying shifts of labour and capital into more productive areas. A fixed exchange rate, dollarization, or a monetary union, on the other hand, would render these concerns moot.

2. The Case Against

On the negative side of the ledger, proponents of the status quo raise several considerations: the observation that Canada and the United States (and possibly Mexico) do not yet represent an "optimum currency area" (OCA), a concept pioneered by the Canadian economist and 1999 Nobel Prize winner Robert Mundell; the usefulness of flexible exchange rates in absorbing outside shocks to the economic system; the loss of control over monetary policy, together with the difficulties inherent in a "one size fits all" monetary policy; and the loss of seigniorage (revenue created by printing one's own currency, minus the actual cost of printing it) that could ensue with the introduction of a common currency.

First, there is considerable doubt that the three NAFTA partners represent an OCA. Mundell postulated that a monetary union should, ideally, proceed only when four key economic conditions have been met. For one thing, member countries should have relatively high levels of trade integration. This is probably the most persuasive argument in favour of a currency union for Canada and the United States: more than 85% of

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[220] Indeed, Canada's inflation rate from the early 1970s to 1992 was higher than that of the United States. Interest rates in this country were also at more elevated rates, which meant less investment, less productivity and a continuation of the downward spiral of the dollar.

Canada's exports are shipped to the United States, and two-way trade has more than doubled in the past decade.

Moreover, countries entering into a currency union should have similar economic structures so that outside economic shocks, such as a sudden increase in energy prices, influence member countries relatively evenly. Moving to a fixed exchange rate or monetary union may not be useful when countries are affected differently by the same economic shocks. Many opponents of monetary integration believe the U.S. and Canadian economies are, in fact, quite different. For example, Canada is a net exporter of commodities, while the United States is a net importer. In volume terms, commodity-based exports continue to account for over 30% of total Canadian merchandise exports. Even though commodities' share of Canadian exports is now less than half what it was 25 years ago, it is still much higher than in other industrialized countries and is likely to remain so in the foreseeable future. The typical volatility of commodity prices allows them to deliver key external economic shocks to Canada.

Yet another precondition to an OCA is a transfer system designed to provide insurance relief against region-specific shocks. As a proxy, participating countries could coordinate their fiscal policies so that revenues and spending smooth out business-cycle variations. This is the idea behind the financing conditions set out in the European Growth and Stability Pact. Member countries that incur deficits greater than 3% and debt-to-GDP ratios greater than 60% can be fined up to half a percent of their annual GDP.

Historically, the preconditions for an optimal currency area have rarely been met even within existing currency areas — including the European Union, where a common currency was implemented mainly to foster greater political integration, rather than for economic reasons. This suggests that the creation of a common currency is more a political than an economic matter.

Fixed exchange rate advocates, however, believe that the Canadian economy is becoming increasingly integrated with that of the United States and that Mundell's four conditions for monetary union are becoming ever more actual.

A second key point to make against the introduction of a common currency is that flexible exchange rates have served the country well by helping it to weather short-term economic storms, such as the 1997-1998 Asian financial crisis, when Canada suddenly found its competitive position weakened by a steep devaluation in many southeast Asian currencies. If Canada had operated with a fixed exchange rate — which is usually a precursor to monetary union — the Bank of Canada would have been forced to buy the currency or increase short-term interest rates, or both, to defend its fixed value. Firms, meanwhile, would have had to cut costs by either reducing wages or, more likely, laying off employees and shutting down factories.

In a flexible exchange rate system, the Canadian dollar — rather than wages and prices, or employment and output — adjusts to economic shocks. Given the close relationship between the value of the Canadian dollar and global commodity prices, the Canadian dollar has played an important "buffering" role. When world commodity prices rise, the Canadian dollar is strong. When they are weak, our flexible exchange rate tends to act as a shock absorber, making Canadian exports more affordable in world markets.

Third, a common currency would prevent Canada from pursuing independent monetary policy. The problem is that a "one size fits all" monetary policy may not be appropriate for all participants, and monetary policy tailored to the needs of the United States could harm Canada. In Europe, peripheral regions' fast growth and accelerating inflation could put pressure on the European Central Bank to raise interest rates. At the same time, other parts of the union (e.g., Germany) could be witnessing an economic slowdown that would be exacerbated by higher interest rates. In other words, monetary policy for one country might not be suitable for another country if their economic structures differ.

In a nutshell, Canada would have to give up some sovereignty. Under a currency union, one could reasonably anticipate that this country would retain a voice within a proposed North American Central Bank (in the form of, for example, being treated as one Federal Reserve District) in the setting of monetary policy. Under dollarization, however, a complete loss of monetary sovereignty would occur, in that all decisions about the money supply and interest rates would be made in the United States, with little or no Canadian input.

Countries joining currency unions, or contemplating doing so, are often motivated by the prospects of gaining credible monetary policy. Major benefits can accrue when the major trading partners are less tolerant of inflation than the domestic central bank. In this light, the policy constraint imposed by a fixed exchange rate regime is actually viewed as a positive development. For example, many still argue that certain Latin American countries with floating exchange rates are less inclined to follow appropriate economic policies than those with fixed rates. The situation in Canada is, of course, quite different in that Canadian monetary policy is generally held in high regard.

The flip side of this story is that currency union members lose a degree of economic and political independence by ceding monetary policy making. Historically, many national governments have been reluctant to adopt another country's currency out of fear of losing control over monetary policy, such as the ability to independently set interest rates or print money. Many economic nationalists and individual Canadians are also, rightly or wrongly, concerned that adoption of a currency union might ultimately lead to political union.

Given its dominant position in North America and indeed the world, the United States has no pressing need or apparent desire to sponsor a North American Monetary Union (NAMU) arrangement. Any move towards a NAMU would, therefore, likely have to come from either Canada or Mexico and would almost certainly result in both countries adopting the U.S. dollar.[221] This seems especially true given the Americans' strong attachment to their dollar. The U.S. government would also probably not be willing to give up decision-making power — or seigniorage income for that matter (see below) — to help the NAMU movement. Canada and Mexico would therefore have to surrender substantial control over independent monetary policy to the U.S. Federal Reserve. The most Canada could probably hope for would be for the Bank of Canada to become the 13th Federal Reserve District.

Even then, the U.S. monetary authorities would more than likely make their monetary policy decisions on the basis of mainly domestic economic considerations. For example, the Federal Reserve could very well set interest rates at levels that Canadians did not appreciate, perhaps to cool off a robust U.S. economy out of step with Canada's economic cycle. Such action would not pose much of a problem if individual Canadians could move readily to the United States to take advantage of superior economic opportunities; however, the movement of labour between the two countries is very limited, mostly for institutional reasons. As of yet, there is no common market or free movement of labour in North American to support a currency union.

In the long run, theory holds that monetary policy can only influence the rate of inflation. Flexible exchange rate supporters argue the Bank of Canada has done a better job of keeping inflation under wraps than the U.S. Federal Reserve, and so there is little or no reason to form a currency union on this count. As proof, they point to the fact that Canada's inflation rate was below that of the United States for most of the 1990s. Critics of the flexible exchange rate system, on the other hand, question whether the loss of sovereignty occasioned by monetary union would be that significant, arguing that the Bank of Canada has not displayed much monetary policy independence from the Federal Reserve during the last 20 years and that the *recent* evidence of lower inflation has been purchased at a steep price, namely the prolonged recession of the early 1990s. Given that Canada's business cycle is highly dependent on that of our southern neighbour, the Governor of the Bank of Canada has, for example, often had little choice but to adjust interest rates in Canada following a shift in U.S. rates.

Finally, moving away from flexible exchange rates could involve a loss of seigniorage. Currently, the Bank of Canada collects a total of some $1.5 billion per year in domestic seigniorage, or income accruing to the government from issuing currency on an interest-free basis. Any move to a straight adoption of the U.S. currency would jeopardize the receipt of seigniorage-related revenues, since these would begin to accrue to the U.S. Federal Reserve. Under a North American monetary union, on the other hand, seigniorage could be preserved; the Canadian Mint could continue to produce currency notes and coins (with a possible North American designation on one side and a Canadian one on the other). This, of course, would have to be negotiated.

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[221] Official dollarization would involve the most loss of sovereignty over Canadian monetary policy of any fixed exchange rate option.

C. Witness Views on the Debate

The evidence received by the Committee, including that heard in meetings in Washington and Mexico City, was largely negative on the overall merits of Canada's abandoning its currency. To a large extent, the criticism of such a policy shift focused on two areas: the problems associated with varying economic structures in North America, and the loss of monetary policy decision-making that a move to a common currency would entail.

Regarding the former, several witnesses pointed out the appropriateness of continuing with a floating exchange rate until the Canadian and U.S. economies become more structurally similar. The observation was made that with Canada's economy experiencing different shocks from that of its southern neighbour, a flexible exchange rate would be a useful tool for the country to have to deal with such shocks. For example, a drop in the price (typically on the world market) of our exports causes the value of the dollar to fall, thereby cushioning us from the outside shock while also enabling Canadian firms to more successfully export manufactured products into the U.S. market.

On the question of monetary policy, the Committee heard frequently that a common currency would lead to less sovereignty by reducing or removing Canadian control over such policy, in particular removing the flexibility the Bank of Canada now has to influence monetary policy. In contrast, it was argued, flexible exchange rates have worked effectively for Canada up until now in those cross-border dealings for which effective dollarization has not been a factor. Canadian monetary policy making has been sound, so there is little incentive to replace it with the U.S. one.

With respect to prospects for a North American common currency area, Professor Susan Minushkin of the Centro de Investigación y Docencia Económicas observed to the Committee in Mexico City that the degree of financial integration among the three countries varies from "very advanced" between Canada and the United States to "virtually non-existent" between Canada and Mexico. While the peso's volatile exchange rate relative to the dollar continues to be of concern (recently because it has been too high; the opposite of the Canadian case), Mexican interest in dollarization options has been cooled by the recent experiences of Latin American countries such as Argentina. Nor is it obvious how such a move would help Mexico with what it sees as the pressing challenges of income inequality and labour mobility in a North American context. In Minushkin's view, Mexicans have no illusions about the fact that gaining representation in any shared monetary authority would be a long shot at best. So while currency union can be studied and might turn out to be a good idea "20 years from now", in the present circumstances "North America is not ready".[222]

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[222] In a recent study of North American integration prospects, Mexican Economist Rogelio Ramirez de la O has also concluded that monetary integration is not economically sound, necessary, or desirable. See *Mexico: NAFTA and the Prospects for North American Integration*, The Border Papers, C.D. Howe Institute, *Commentary*, No. 172, November 2002. Available at www.cdhowe.org.

The point was also made by a number of witnesses that the chances of realizing a monetary union were very weak, largely because of a lack of American interest. As Dr. Laurence Meyer, a distinguished scholar at the Center for Strategic and International Studies who served on the U.S. Federal Reserve System Board of Governors until January 2002, told the Committee in Washington, there is no indication that the United States would ever share any monetary authority with another country. That leaves *de jure* dollarization (to use Pastor's above-mentioned terminology) as the only realistic option.

Not all of the comments received on the currency question were negative, however. On the positive side, a number of witnesses pointed to the elimination of exchange rate uncertainty that a common currency would bring about. Removing this risk would help increase trade between Canada and the United States, even if the resulting loss in monetary sovereignty would likely outweigh any gains.

Three other arguments were raised to support greater exchange-rate fixity. First, several witnesses noted that the low value of the currency had served to "protect" very low levels of productivity. This observation holds that the falling dollar has allowed the country's industries to remain competitive without the necessity of adequate productivity growth and innovation. As Gordon Gibson noted, "the continuing escape valve of the falling Canadian dollar has made it possible for the Canadian economy to resist adaptation to more modern times."[223]

Other witnesses, however, made the reverse argument: that the strength of our currency would improve once the root causes of low productivity were addressed. Moving to dollarization at today's exchange rates would, unfortunately, lock in losses in real incomes. According to this line of thinking, implementing an effective productivity-enhancing agenda would be the preferred option.

Second, Gibson argued that in ten to twenty years, de facto dollarization will have been completed, and Canada will not have put itself in a position to obtain the benefits (e.g., seigniorage, some monetary influence) that a currency union would bring.

Third, Fred McMahon observed that concerns over the loss of sovereignty brought about by the sacrificing of monetary decision-making are overrated, in that the purpose of monetary policy would not change with the policy shift and that all central banks now have price stability as "the single, unambiguous goal."

Finally, notwithstanding the witnesses' general resistance to the entire concept of monetary integration, several voiced the need for a serious examination of the issue from a Canadian perspective. This suggestion may have merit regardless of one's views on the issue. The review would need to include an examination of the extent to which the Canadian economy is already dollarized. As Robert Pastor informed the Committee, there is a process of de facto dollarization that is now occurring in North America, in which "Canada and Mexico use the U.S. dollar. Businesses and travellers use the dollar, everybody uses the dollar. More than half of the deposits in the banks in Canada, I understand, are now in U.S. dollars. Almost all the major corporations trading are trading in dollars. If we don't do anything, we move in that direction."[224]

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[223] *Evidence*, Meeting No. 78, May 7, 2002.

D. The Committee's Views on Monetary Integration

The debate over monetary integration tends to pit the microeconomic advantages of a common currency against two elements: the inability of fixed exchange rates to absorb external economic shocks; and the resulting loss of sovereignty for nations giving up their currency and decision-making over monetary policy. Choosing between the two sides represents a challenge, with both proponents and opponents making strong and valid points.

Whatever the result of that debate, "optimal currency area" theory suggests that Canada is a long way from satisfying three of the four key conditions to membership in a monetary union. These include: differences in economic structure between Canada and the rest of North America; the dearth of labour mobility among NAFTA partners; and the lack of a fiscal transfer system designed to provide insurance relief against region-specific economic shocks.

Even if the OCA conditions have not been met, these differences are not insurmountable or necessarily permanent. Moreover, over time, the ability of flexible exchange rates to buffer commodity price shocks will probably become less valuable, as both manufactured products and services come to increasingly dominate Canadian exports, as they do in the United States. With commodity exports representing a declining feature of Canada's domestic economy, a re-examination of the costs and benefits of a North American currency union could have merit in the future. Even senior officials of the Bank of Canada, the institution whose very survival would be threatened if a common currency were to be attained, have suggested that monetary integration could eventually become a viable option.

In the short run, the Committee believes that the correct policy response is to take strong measures to strengthen the Canadian dollar, not abandon it. We agree with the bulk of the evidence received that it is currently in Canada's best interests to retain exchange rate flexibility.

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[224] *Evidence*, Meeting No. 56, February 7, 2002.

Recommendation 32

Given that certain vital preconditions to North American monetary integration (e.g., similarity in the economic structures of NAFTA participants, existence of labour mobility across borders, availability of a fiscal transfer system) are not presently met, the Government of Canada should oppose any current calls to abandon its existing flexible exchange-rate system. The Government should continue to carefully review its long-term currency options and, in so doing, assess the extent to which the Canadian economy is already dollarized and any associated impacts.

APPENDIX TO CHAPTER 4
NAFTA Intergovernmental Bodies

*[**Note:** The provision in NAFTA or the separate agreement authorizing the creation of the body, and the organization or commission to which it reports, are listed in parentheses.]*

Free Trade Commission [FTC]

- NAFTA Coordinating Secretariat
- FTC Secretariat (Article 2002)

Part Two of NAFTA: Trade in Goods

- Committee on Trade in Goods (Article 316, Finance)
- Working Group on Rules of Origin (Article 513, DFAIT)
  - Customs Subgroup (Article 513.6, Revenue)
- Committee on Trade in Worn Clothing (Annex 300-B, Industry)
- Committee on Agricultural Trade [CAT] (Article 706, Agriculture and DFAIT)
  - Working Group on Agricultural Grading and Marketing Standards (Annex 703.2.25, Agriculture and DFAIT)
  - Working Group on Agricultural Subsidies (Article 705.6, Agriculture and DFAIT)
  - Advisory Committee on Private Agricultural Disputes (Article 707, Agriculture and DFAIT)
  - Working Group on Tariff Rate Quota Administration (CAT, Agriculture and DFAIT)
- Committee on Sanitary and Phytosanitary Standards [CSPS] (Article 722, DFAIT, Agriculture)
  - Technical Working Group on Pesticides (created jointly by CSPS and CSRM [see below])
  - Trilateral/Bilateral Working Groups adopted from Canada-U.S. FTA (FTA Article 708, DFAIT):
    - Meat, Poultry and Egg Inspection Working Group (CSPS)
    - Plant Health, Seeds and Fertilizers Working Group (CSPS)
    - Animal Health Working Group (CSPS)
    - Dairy, Fruit and Vegetable Inspection (CSPS)

    - Veterinary Drugs and Feeds (CSPS)
    - Food, Beverage, Colour Additives and Unavoidable Contaminants (CSPS)
    - Packaging and Labelling Working Group (CSPS)
    - Fish and Fisheries Products Inspection (CSPS)
    - Pesticides Technical Working Group (CSPS)

- Committee on Standards-Related Measures [CSRM] (Article 913, DFAIT)
  - Land Transportation Subcommittee [LTSS] (Annex 913.5.a-1, Transport and DFAIT)
  - LTSS I Driver and Vehicle Safety Compliance
  - LTSS II Vehicle Weight and Dimension
  - LTSS III Road Signs
  - LTSS IV Rail Operations
  - LTSS V Committee on Transportation of Dangerous Goods
  - Telecommunications Standards Subcommittee (Annex 913.5.a-2, Industry)
  - Automotive Standards Council (Annex 913.5.a-3, Industry, Transport)
  - Textile/Apparel Labelling Subcommittee (Annex 913.5.a-4, Industry)

Part Four of NAFTA: Government Procurement

- Working Group on Government Procurement (Article 1021, DFAIT)
- Committee on Small Business (Article 1021, DFAIT)

Part Five of NAFTA: Investment Services, etc.

- Financial Services Committee (Annex 1412.1, Finance)
- Working Group on Trade and Competition Policy (Article 1504, DFAIT, Industry)
- Working Group on Temporary Entry (Article 1605, Citizenship and Immigration)
- Working Group on Investment and Services (Chapters 11 and 12)

Part Seven of NAFTA: Administration and Institutional

- Advisory Committee on Private Commercial Disputes (Article 2022, DFAIT)
- Working Group on Emergency Action (Article 2001(2)(d), Finance)
- Working Group on Dumping and Antidumping Duties (Joint Statement 12/2/93)
- Chapter 19 Working Group on Trade Remedies (Chapter 19 Article 1907.1)

Commission for Environmental Cooperation [CEC]

- CEC Council (NAAEC, Article 9-10)
- CEC Secretariat (NAAEC, Article 11)
- Joint Public Advisory Committee [JPAC] (NAAEC, Article 16)
- National Advisory Committees [NAC] (NAAEC, Article 17)

Commission for Labor Cooperation [CLC]

- CLC Council
- CLC Secretariat
- National Advisory Committees [NAC]

Review Processes

- Long-term review process — Automotive (Annex 300-A, paragraph 2)
- Long-term review process — GATT (Annex 300-B, Section 7.3)

NAFTA-Inspired Institutions

- Energy Efficiency Labelling Group
- Health Group
- Transportation Consultative Group
- Border Environment Cooperation Commission [BECC]
- North American Development Bank [NADBank]
- Working Group on Dumping and Antidumping Duties (Joint Statement 12/2/93)

Source: *NAFTA's Institutions: The Environmental Potential and Performance of the NAFTA Free Trade Commission and Related Bodies*, Commission for Environmental Cooperation, Montreal, 1997 (accessed at: http://www.cec.org/files/pdf/ECONOMY/NAFTen_EN.pdf).

CHAPTER 5: A CANADIAN AGENDA FOR ENHANCING BILATERAL AND TRILATERAL RELATIONS IN NORTH AMERICA

5.1 Introduction

This chapter includes three major sections. The first of these addresses the topic that is the traditional and ongoing focus of Canada's attention: the particularly crucial challenges of managing Canada's bilateral relationship with the United States. In the broader context of developing a North American dimension of international relations, however, the Committee holds that it is also in Canada's long-term interest to pursue closer relations with Mexico, and in addition to examine seriously the potential for trilateral forms of partnership. These are the subjects of the two remaining sections of the chapter.

Before proceeding to those discussions, it should be emphasized that the North American reality calls for a sophisticated approach at several levels to the question of plural bilateral and trilateral relationships. Marc Lortie, DFAIT Assistant Deputy Minister for the Americas, outlined it this way: "North America is really about four relationships, three bilateral and one trilateral: Canada-U.S.; Canada-Mexico; U.S.-Mexico; and the three of us, Canada-Mexico-U.S. The Canada-Mexico relationship is the least known. It is growing but it needs nurturing. It deserves its own space. We should not view trilateral relations as an alternative to either Canada-United States or Canada-Mexico [relations], but as complementary and enriching".[1]

At the same time, there is no question that the Canada-U.S. relationship overshadows the others and includes aspects that will need to be tackled bilaterally as a matter of priority. As George Haynal, Mr. Lortie's predecessor, expressed this point: "It's important to be very clear as to what is a North American agenda and what is a Canada-U.S. agenda, just as it is very important for Mexico to understand what is a North American agenda, [and] what is a Mexican agenda.... As this discourse proceeds, it's going to be increasingly important to bring the North American dimension into it but not confuse it with the fundamental issue for us, which is a survival issue of managing our relationship with the U.S. well. If we don't manage that well, the rest of it doesn't really matter an awful lot."[2]

Witnesses from the business community, and the strategic advice of former Canadian trade negotiator Michael Hart among others, would certainly agree with that assessment. However, the Committee is concerned that a bilateral-first emphasis may tend to undervalue the Canada-Mexico and trilateral dimensions of North American relations. The Canada-U.S. focus is often so strong by force of habit that these other dimensions get passed over or brought in as afterthought. For example, the written submission from the Canadian Chamber of Commerce made no mention of Mexico. In oral testimony, Robert Keyes, Vice-President of the Chamber's International Division, did mention that a "trilateral working group" on NAFTA issues had been established with counterparts from Mexico as well as the United States, but indicated it was then dropped, largely because of a lack of American interest. And yet the relevance of working trilaterally in certain specified areas, and not only bilaterally, was readily acknowledged by Chamber policy analyst Alexander Lofthouse in the following comment:

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[1] *Evidence*, Meeting No. 57, February 19, 2002.

[2] *Evidence*, Meeting No. 56, February 7, 2002.

> … I don't think we should look at it as an either/or choice. We work either bilaterally or trilaterally. We're not going to work at the same speed on all issues at all times. This is one area where the European experience is really instructive.... There's a concept in Europe of multi-speed integration, where not all partners are integrated in the same way at the same time.... The Schengen Agreement on internal boundaries; they're not all part of it because they're not all ready for it.
>
> I think we can look at the same thing with Canada, the United States, and Mexico. There are some things on which we can work on a trilateral basis, such as what we already have — tariff reduction, investment policy, and the list goes on. But on some issues, such as border security or movement of people, we're simply not working that way. There's nothing wrong with that, because we're talking about three very different countries operating in three very different contexts.
>
> So I would say if there are issues on which it is better for us to work bilaterally — Canada-U.S., or for that matter U.S.-Mexico — then so be it. I just think we can do the same as we construct this trilateral economic space and still work on issues bilaterally. I don't think the two are mutually exclusive.[3]

On broader foreign policy grounds as well, a too narrow or exclusive approach should be avoided. Like George MacLean in Winnipeg, University of Alberta Vice-President Brian Stevenson made the point in Edmonton that Canada could significantly enhance its multilateral goals in the hemisphere through regional arrangements as well as through trilateral arrangements such as NAFTA. Canada and Mexico could also learn much from each other's "collateral relationship" with a common neighbour. Stevenson argued that: "the two least-desirable arrangements are an asymmetrical bilateral relationship [with the United States] on one end of the spectrum, and a fully universal multilateral relationship on the other.... They must be complemented by a variety of options through the middle of the spectrum of multilateralism, and even selected strategic bilateral relationships. Our menu of options has to be broad, but it must begin with North America."[4]

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[3] *Evidence*, Meeting No. 89, June 11, 2002.

[4] *Evidence*, Meeting No. 82, May 9, 2002.

Laura Macdonald of Carleton University, who agreed that Canada's future increasingly, "whether we like it or not, lies in North America," pointed to signs of "an inevitable trilateralization of previously bilateral concerns" and added that "politically it's very difficult for policy-makers in Washington to argue that they have to treat Canada differently from Mexico." As she stated: "Canada's commitment to North America and a truly trilateral relationship among the three member countries prior to September 11 was rather tepid. The importance of the bilateral U.S.-Canada relationship was reinforced after September 11, both in Canada and in the United States. Nevertheless, I would argue that this is a short-term perspective, the idea that we can do a sort of two-track approach and focus on our bilateral relationship, leaving out Mexico. I would argue that we're not going to get our old special relationship back with the United States, however much we might want it.... When people think about North America in the U.S., they're largely thinking about Mexico".[5]

Whether or not this is so, other witnesses concurred that it would be a mistake to treat the question of where Mexico fits into Canada's North American strategy as something that can be safely ignored or put off till later. Stephen Blank argued that Canada's best option is to participate in a complex North American-wide effort of building the coalitions, alliances, and constituencies for North America, adding that he disagreed "with this bilateralism that has been the recent trend in Canadian policy and a retreat from trilateralism".[6] And Guy Stanley made the following point:

> The problem now is that the U.S. was attacked on their territory and the stakes are quite high. If we don't want an American strategy to be forced on us, we must have something to balance their strategy, with the same sense of urgency and a position based on our strengths and our different traditions, as well as a range of concrete contributions that we can provide within a common approach.
>
> I also believe it would be desirable to include Mexicans in the same discussion and dialogue because we don't know what the direction of American policies will be in the near future. If we want to be able to encourage or to deter some things, we'd better have a major and recognized contribution, and a partner who supports or shares the same perspective with us and who is capable, in a trilateral context, to provide a stronger dimension and a higher value than what can be done unilaterally. Otherwise, I would be concerned about the decisions the Americans will be making in the short term.[7]

In short, a one-track approach to North American relations is not sufficient. But the need to balance more than one at the same time raises questions about how best to manage these several tracks of Canada's relationships with North American partners. There are also questions about when and how to combine or go beyond these in trilateral terms. It is to such questions that the Committee now turns.

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[5] *Evidence*, Meeting No. 88, June 6, 2002.

[6] *Evidence*, Meeting No. 90, June 13, 2002.

[7] *Evidence*, Meeting No. 90, June 13, 2002.

A. MANAGING THE CANADA-U.S. RELATIONSHIP

> *The pervasive economic, security, and environment linkages between our two countries have always made the management of the Canada-U.S. relationship a critical domestic and foreign policy challenge for us.*
>
> Jon Allen, Director General,
> North American Bureau, DFAIT
> *Evidence*, Meeting No. 42, November 20, 2001.

> *... maintaining an effective working relationship with the United States is the only true imperative in the conduct of Canadian foreign policy.*
>
> Denis Stairs, Dalhousie University,
> *Evidence*, Meeting No. 45, November 27, 2001.

> *Canadian diplomats have known for 25 years that there is no single recipe for managing the U.S. relationship, because there is no single power center in the American system of government.*[8]
>
> Stephen Clarkson, University of Toronto.

> *Canada needs better intelligence and advocacy in the U.S. We need to engage the Americans at the local, regional and state levels where the interests that drive congressional and administration policy are being developed and articulated.*[9]
>
> Hon. Pierre Pettigrew, Minister for International Trade.

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[8] As argued in a forthcoming paper, "The View from the Attic: Towards a Gated Continental Community?", pre-publication draft (cited with permission).

[9] *Notes for an Address at the 8th Annual Canadian-American Business Achievement Award and International Business Partnership Forum "The Canada We Want in the North America We are Building"*, Toronto October 16, 2002. Available on the DFAIT website at: www.dfait-maeci.gc.ca.

WHAT WITNESSES SAID

... it's very important to understand how the American political system works — who has power, how they get it, how they keep it, who their friends are, what the blocks are — or it looks like some maverick senator venting spleen, looking towards re-election, and picking on Canada. This is not to justify the American case, but it is to say that Canada needs to take a much more ground-level approach in its management of cross-border relations in the future.

Reginald Stuart,
Mount Saint Vincent University,
Evidence, Meeting No. 59, February 26, 2002.

We need political leadership at the top. We need business-to-business interaction; companies active in the U.S.; and companies with facilities on both sides of the border. We also need associations, such as the kind of bilateral relationship we have with the U.S. chamber and through relationships between our local chambers and border chambers in the U.S.... We also need relationships between parliamentarians and U.S. legislators; between provinces and states; and between trade unions, and so on. We really have to have a multi-layered approach, one with common messages and common themes, so that we speak to Washington in the kind of language Washington understands. We have to continually ask ourselves, are we hitting the right buttons? Sometimes perhaps we aren't. We have to make our American friends understand that the two countries have an important relationship that cuts both ways. It's win-win for both of us. There are a lot of Americans who don't recognize that for 38 of the 50 states, Canada is their largest trading partner. Do we use this fact to our advantage? Our whole communications strategy vis-à-vis the U.S. is something we need to think about.

Robert Keyes, Canadian Chamber of Commerce,
Evidence, Meeting No. 89, June 11, 2002.

How do you put the best case forward? I don't have a simple answer to that, but you're not going to be able to put the best case forward by simply linking up with a handful of people in the executive branch. You're not going to be able to put the best foot forward by having things done purely at the ambassadorial level. You won't put the best foot forward unless bridges and links are made with members of the House of Representatives and the Senate.

Isaiah A. Litvak, Florida Atlantic University,
Evidence, Meeting No. 87, June 4, 2002.

Our best allies are often to be found in the U.S. That is another characteristic of the relationship between our two countries. Right now, in the softwood lumber dispute, our best allies are the American consumers, who vastly outnumber the American companies challenging our export system. Homebuilders in the United States prefer to buy cheap Canadian lumber. The ambassadors have often said this. I heard it from Raymond Chrétien a few years ago. When we organize a lobbying effort, need to deal with or promote an issue or defend a point with Congress in particular, we need to mobilize lobby groups within the United States to push our ideas, especially with Congress, which is made up of elective representatives who are very sensitive to their voters' wishes, to their constituency, as they say. So our best allies are often within the American public.

Louis Balthazar, Laval University,
Evidence, Meeting No. 60, February 26, 2002.

It's not that Canada is going to have the same power … as the United States, but the question is, how do you get taken seriously, how do you get heard when you have important points to make? … I think you should be trying to express your influence. But your influence is often stronger when it comes from an attitude that says, we're interested in helping, not just having a purist position outside criticizing. So some way of keeping independent criticism, but proving that you are, if you will, a loyal opposition, not just an opposition, I think enhances allies' influence.

Joseph Nye, Kennedy School of Government, Harvard University,
***Evidence*, Meeting No. 74, May 2, 2002.**

Traditionally, Canada-U.S. watchers have been of the view that in order for a Canada-U.S. initiative to succeed, you need to make a lot of noise in Washington and very little noise in Ottawa. In other words, you need to downplay the politics of the initiative in Ottawa and in Canada because of sensitivities, but you need to raise them in the United States. I think that's still very true in the United States, but I think the fear that Canadians will react adversely to a Canada-U.S. initiative is overplayed today.

Michael Hart, Carleton University,
***Evidence*, Meeting No. 55, February 5, 2002.**

5.2 Strengthening Canada's Management of Relations with the United States

In the long and complicated history of Canadian-American relations, Canada has always had to take into account the obviously superior power of its closest neighbour and to devise diplomatic strategies for dealing as effectively as possible with the most important international relationship Canada has.[10] Previous chapters have offered recommendations in some specific areas of Canada-U.S. bilateral relations. At least as important, however, is the more general question of how best to manage our intense, evolving relationship with the United States to ensure that a strong, clear and coherent Canadian message is being delivered in the United States both on a day-to-day basis and in exceptional cases, such as when we are trying to solve a trade dispute or advance Canadian initiatives.

Many witnesses focused on the latter case of subjects receiving high-profile attention, and a significant amount of testimony therefore related to the relative merits of "big ideas" versus incrementalism in pursuing these matters with the United States. Yet while the strategy chosen will depend on the issue at hand, the mechanics of developing a broad-based position and effectively delivering strong and consistent Canadian messages to multiple points in the United States are similar, and equally challenging. As Michael Hart warned:

> An appreciation of … fundamental differences in political institutions and philosophies is critical to the successful pursuit of bilateral initiatives. Experience with the FTA, the Acid Rain Accord, and similar initiatives indicates that well-crafted and deployed Canadian initiatives can succeed, but not quietly or

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[10] For a useful historical review of Canadian approaches to dealing with the Canadian-American relationship, see Allan Smith, "Doing the Continental: Conceptualizations of the Canadian-American Relationship in the Long Twentieth Century," *Canadian-American Public Policy*, No. 44, December 2000.

> quickly. They require a full-court press in Washington and across the United States from both private and public interests, they need the full support of the President, his senior cabinet colleagues, and leading members of both the House and the Senate, and they take time to mature. Anything less is doomed to fail.[11]

Denis Stairs pointed out to the Committee that Canada has traditionally employed a combination of macro- and micro-strategies "... in attempting to level the playing field with the United States at least a little." The macro-strategies included attempts to diversify our economic and other relationships and to get as much bargaining as possible into multilateral arenas. While he argued that neither of these was as useful as it had been in the past, he noted that "The micro-strategies have been aimed mainly at de-escalating the politics of the relationship as a whole, and they've included a number of tried and true techniques...." These include avoiding linkages, practising quiet diplomacy when helpful, establishing rules-governed bilateral institutions, agreeing to disagree on certain issues (such as the sovereignty of Arctic waters), and lobbying the American Congress and public. He added that while such strategies are still very important, "... we need to recognize that they will not be effective overall in cases in which the Americans perceive that their fundamental national security interests are at stake."[12]

Some approaches have proven more useful than others over the decades, and we have identified several of particular importance in managing what will always be a challenging relationship given the disparity in power between Canada and the United States. Because of this disparity, many have also argued that it is generally better for Canada if initiatives in our bilateral relations come from this country rather than the United States.[13] Finally, while it is more difficult than is often suggested to draw direct links between such issues as Canadian defence spending and this country's credibility in Washington, following the recommendations contained in this report could only increase Canada's credibility there.

1. The Need For Better Understanding on Both Sides

Given the depth and complexity of our ever-evolving relations with the United States, witnesses agreed on the need for at least three levels of understanding as we attempt to deliver clear Canadian messages that have the maximum influence.

First, it is necessary to understand the American political system, from the fact that "all politics is local" through the continuous competition of multiple constituencies for attention and the key role of the U.S. Congress. While he was speaking more broadly, political scientist James Laxer of York University was correct in 2000 when he stated, "Understanding the U.S. has become a Canadian question, perhaps *the* Canadian question."[14]

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[11] Michael Hart, *Submission*, February 5, 2002.

[12] *Evidence*, Meeting No. 45, November 27, 2001.

[13] Fen Osler Hampson, Norman Hillmer and Maureen Appel Molot, "The Return to Continentalism in Canadian Foreign Policy," in *The Axworthy Legacy: Canada Among Nations 2001*, Don Mills, Oxford University Press, 2001, p. 11-12.

Reginald Stuart recommended to the Committee that it be a Canadian priority to

> … educate ourselves on the nature of the American political process and Americans on the nature of Canada's political process. Those who deal with Americans must understand how it works, the shared yet separated powers, the role of Congressional committees, their chairs, members, and staff. Too many Canadians, even those who should know better, do not understand the differences between our political systems, and the reverse is likely true as well.[15]

Second — even acknowledging Andrew Cohen's point that "America is not discriminating against Canada; it knows as little about anyone else as it does about Canada"[16] — it is important to ensure that American decision-makers have a factual understanding both of Canada's position on particular issues and, more important, of Canada itself. Above all, American politicians should be aware of Canada's economic importance to the United States as a whole, as well as to almost three dozen individual states and thousands of businesses. American decision-makers should also understand Canada's international role, including its real ability to pursue avenues not always open to the United States.

At the broadest level, it is important that Canadians understand what they want from the United States — or, as Denis Stairs put it more precisely, "what they want that the Americans are currently preventing them from getting."[17] It may be relatively easy to decide what we want on particular trade and other issues, especially given the professionalism and expertise of Canadian diplomats and other civil servants. But while the final answer to the broader question may always prove elusive, this is one case in which the journey in search of an honest answer may be as important as the destination.

2. Strengthening and Expanding Canadian Diplomacy

The Canadians most directly engaged in delivering Canadian messages and advancing Canada's interests in the United States are professional Canadian diplomats. The Executive Director of FOCAL, Don Mackay, told the Committee that the high quality of our diplomats — particularly our ambassadors in Washington — has played an important role in their effectiveness. He argued that

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[14] James Laxer, *Stalking the Elephant: My Discovery of America*, Toronto, Viking, 2000, p. 13.

[15] "Recommendations to the Committee", *Submission*, Halifax, Meeting No. 59, February 26, 2002.

[16] Andrew Cohen, "Canadian–American Relations: Does Canada Matter in Washington? Does it Matter if Canada Doesn't Matter?" in *Canada Among Nations 2002*, p. 44.

[17] *Evidence*, Meeting No. 45, November 27, 2001.

> … the Canadian embassy in Washington has always been headed by an extremely senior level official. Whether you go back to Derek Burney or Monsieur Chrétien… or consider the current ambassador, Michael Kergin, these are extremely senior people, and that embassy works with a singular focus. The singular focus is that anybody of note within the U.S. government will take a phone call from that Canadian ambassador. I don't think access has been the problem, because in my experience, presidents on down, they will take phone calls from that resident ambassador.[18]

Yet while Canada's diplomats — like its military personnel — are of very high quality, they are also under-funded, and therefore overworked. According to Dr. Tom Axworthy:

> There is plenty of American goodwill towards Canada, but it takes a tremendous amount of work to penetrate the U.S. bureaucracy, secure a place on the congressional radar screen or get calls placed through the White House switchboard. Indeed, it is not only Senators, Members of the House, or White House staffers who need to be lobbied: the staffs of the myriad of House and Senate Committees and the personal staffs of the politicians are also critical gate keepers. Washington is a constant beehive of activity … [and] the Canadian Ambassador needs to influence not a handful of people but literally hundreds of individuals, because the U.S. government is a many-splintered thing.

He also contrasted the diplomatic representation of Canada and Mexico in the United States in this way: "In our most important foreign posting … Washington … Canada's human resources pale in comparison with Mexico's. Mexico has consulates in scores of American cities and the Mexican Ambassador in Washington is almost of cabinet rank in importance. In contrast, Canada has few outposts in major U.S. cities and a very over-worked staff in Washington."[19]

Likewise, Stephen Clarkson has recently argued that a combination of underfunding of Canadian diplomacy and a changing context in Washington means that "… Ottawa is forced to rely on its overstretched embassy in Washington, which practises the ad hoc, reactive, crisis-management techniques it had worked out before free-trade times, when Canadian interests were less deeply affected by the vagaries of Congress's moods or the White House's tactics."[20]

In a recent speech to the Canadian-American Business Council, Minister for International Trade Pierre Pettigrew seemed to acknowledge concerns about the adequacy of Canada's presence, not just in Washington but across the United States, when he proposed "the need for smarter advocacy and representation in the United States … to ensure and enhance our access and advocate our interests." He added: "We need offices to promote trade, seek investment and technology, and advance the interests of all Canadian government departments, provinces and the Canadian private sector."[21]

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[18] *Evidence*, Meeting No. 88, June 6, 2002.

[19] Thomas S. Axworthy, "A Choice Not an Echo: Sharing North America with the Hyperpower," paper presented to the conference on Searching for the New Liberalism, Toronto, September 27-29, 2002, p. 7.

[20] Stephen Clarkson, "Don't Give it Away, Mr. Chrétien, Protect it," The *Globe and Mail*, August 9, 2002.

The Committee has earlier noted the need to provide increased resources to support Canadian diplomacy. This need applies particularly to our diplomats in the United States. While Washington remains key, the Committee believes it is also necessary to increase the number of Canadian consulates elsewhere in the United States. That number was reduced years ago as a deficit-fighting measure.

3. Focusing On Congress

All modern governments are complex; yet the American political system was designed over 200 years ago with complexity as a goal, separating power in order to ensure checks and balances. American professor Stephen Blank told the Committee that "Americans are difficult. The political system is difficult to operate. Watch *West Wing*; it's a pretty good image of how things work. Can you win parts of it? Yes, but we need to do it together in a coordinated strategy."[22]

Michael Hart cautioned, however, that:

> In Washington, the way things work is very different from the way things work in Canada. In Canada, we're used to a form of government in which power emanates from a centre and spreads down and out from that centre. In Washington, it's exactly the opposite. Power emanates from the bottom and gradually concentrates at the centre."[23]

The President is undoubtedly the single most important individual in Washington, and it is important to interact effectively with the administration. Fortunately, as Denis Stairs pointed out, generally "we can satisfy the executive branch in the United States with solid workaday cooperation …"[24]

Congress is another matter, and as an institution, Congress is not only much more complicated but probably more important for Canadians than the presidency. When asked in June 2002 whether the fact that one party or the other controlled the White House had an impact on Canada-U.S. relations, Alexander Lofthouse of the Canadian Chamber of Commerce responded that "… so much of the agenda there is congressionally driven. Even in areas that are clearly within the administration's purview, as trade policy is, the White House is often led by Congress. That's true whether it's the same party in control of both branches or it's divided government."[25]

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[21] Notes for an Address, *op. cit.*, October 16, 2002.

[22] *Evidence*, Meeting No. 90, June 13, 2002.

[23] *Evidence*, Meeting No. 55, February 5, 2002.

[24] *Evidence*, Meeting No. 45, November 27, 2001.

Dealing with U.S. Representatives and Senators can be frustrating, given their very real power on the one hand and the fact that they must be almost continually campaigning on the other, thereby privileging local interests. Politicians from Canada and other countries have undoubtedly repeated the statement of former U.S. Speaker of the House Tip O'Neil, who said that "all politics is local." Nowhere is this the case more than in the United States. As Professor Isaiah Litvak told the Committee:

> Although the United States is a global economic and political power, its particular policy is made locally. So when you're looking at, for example, the House of Representatives, and even the Senate, which has as its members some of the most distinguished statesmen in the United States, the politics are local.
>
> I don't have to tell you ... about the separation of powers. The concern is with the election. So you appeal and address to local interests. Local interests will override, quite often, what we would expect American national interests to be.[26]

This fact has important implications for Canada. As former Canadian Ambassador to the United States Allan Gotlieb has written, "In Washington ... a foreign power is just another special interest, and not a very special one at that." He continued: "The foreign government must recognize that it is at a serious disadvantage compared to other special interests for the simple reason that foreign interests have no senators, no congressmen, and no staffers to represent them at the bargaining table. They have no votes and no political action committees."[27] Partly as a result of this, a number of witnesses pointed out the difficulty of getting on the "radar screen" in the United States — although others agreed with Stephen Clarkson that "... the less the U.S. thinks about us, often the better it is.... As I see it, it's better for the Americans to be ignorant about some of our differences than to be too focused on them." [28]

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[25] *Evidence*, Meeting No. 89, June 11, 2002. In its October 2002 report *A Nation in Peril: The Decline of the Canadian Forces*, the Conference of Defence Associations argues both that "The U.S. bases trade policies on 'balance,' " and "The ultimate arbiter of trade issues, including disputes, is the White House." Both of these statements are dubious at best, underlining the general need for an improved Canadian understanding of the U.S. political system.

[26] *Evidence*, Meeting No. 87, June 4, 2002.

[27] Cited in *Evidence*, Meeting No. 55, February 5, 2002.

[28] *Evidence*, Meeting No. 77, May 7, 2002.

4. Building Coalitions

The work of Canadian diplomats in the United States has changed over the last two decades, with their focus broadening to include Congress as well as the executive.[29] While crucially important, this is still not sufficient. As Stephen Blank noted, years ago

> ... Canadian ambassadors in Washington would only visit the executive; they wouldn't go to Capitol Hill because they felt it was not appropriate. And then, after ambassadors Gotlieb and Chrétien, the Canadians discovered Capitol Hill.
>
> Well, let me tell you what has to be discovered: the rest of the country.... the reality is that the U.S. policy-making process is long, local and permeable, but it requires efforts to participate in the process.

He particularly focused on the natural constituency Canada has in American border areas that already trade and interact with Canadians extensively. In his words:

> ... you don't spend much time building the constituencies and building the coalitions that are necessary to have influence in the U.S. The image of Canada being a small player and being treated in this fashion is simply as much a Canadian doing as anyone else's.... Canada is not small and it is not irrelevant, but it has to participate in the complex policy-making process.[30]

Professor Don Barry warned in Calgary that such coalition building will not be easy, however, since

> ... one problem in dealing with the Americans is there's no real Canadian constituency as such in the United States. Our impact upon the U.S. is sectoral and regional, and this forces a certain kind of approach upon us. Because the impact is sectoral or regional, U.S. perceptions of Canada are very rarely aggregated at the national level. In fact, some presidents have even described Japan as the leading trade partner of the United States. Reagan and Nixon both did that. And Condoleesa Rice, the President's National Security Advisor, didn't know that Canada is the leading trading partner of the United States.
>
> We have this pattern of diplomacy forced upon us by the nature of our impact upon the United States. What it forces us to do is to almost start over again every time

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[29] Decades ago, Canadian diplomats were limited to contact with the State Department. As Lester Pearson noted wryly in 1964, "I used to be a diplomat: I used to be ambassador in Washington. And in those days the state department would never let me talk to members of the Congress. No doubt they were right, because if diplomats started establishing contacts, too close contacts, with members of the Congress, it wouldn't have any great effect on the Congress, but I don't know what it would do to diplomacy and the State Department...." in Roger Frank Swanson, ed., *Canadian-American Summit Diplomacy 1923-1973: Selected Speeches and Documents*, McClelland and Stewart, 1975, p. 230.

[30] *Evidence*, Meeting No. 90, June 13, 2002.

> an issue arises, because we have to find the appropriate allies on each issue. You can't rely on the same group all the time.[31]

Isaiah Litvak made the point that cultivating allies at the Congressional, state, and local levels in the United States should be part of a proactive Canadian strategy for "putting the best case forward" in matters of regional and national interest. As he put it:

> ... you're not going to be able to put the best case forward by simply linking up with a handful of people in the executive branch. You're not going to be able to put the best foot forward by having things done purely at the ambassadorial level. You won't put the best foot forward unless bridges and links are made with members of the House of Representatives and the Senate. One of the things I would view as being very positive in 2002 is the increasing activity of provincial government leaders in meeting with their counterparts on a regional basis. ... The best way to build sensitivities that can be translated in Washington into something more significant, so that Canadian interests will have a better airing, from my vantage point, is through stronger alliances and partnerships at the local level. That means at the regional level, but not at the regional level to the exclusion of national interests.[32]

5. Coordinating Multiple Contacts

While Canadian diplomats will remain the "front line" in terms of engagement with the United States, no single channel of communication can be successful in a relationship so complex. For this reason, the Government must increase its cooperation with Canadian business and other groups, including public-private linkages, as well as with like-minded U.S. groups. In addition, the government may wish to directly support Canadian industry associations in key sectors. Perhaps Canada also needs to support its own industry organizations better so that they can compete against U.S. lobby groups. For example, in the agriculture context, Larry Hill of the Canadian Wheat Board pointed to the extreme sophistication of U.S. agricultural interests:

> ... the American government subsidizes the American farm lobby. They put money into the farm groups doing the lobbying, so they have the ability to hire professional, sophisticated people. ... They have the National Association of Wheat Growers, the U.S. Wheat Associates, the Wheat Export Trade Education Committee. All of these groups are very sophisticated, have presences in Washington, and are partially funded by the American government, so in fact they're putting taxpayers' money into the lobbyists.[33]

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[31] *Evidence*, Meeting No. 80, May 8, 2002.

[32] *Evidence*, Meeting No. 87, June 4, 2002.

[33] *Evidence*, Meeting No. 75, May 6, 2002.

Beyond such associations, a key element in building coalitions in the United States and delivering coherent messages lies with the provinces. Professor Litvak, a Canadian academic now living in the United States, told the Committee:

> The best way to build sensitivities that can be translated in Washington into something more significant, so that Canadian interests will have a better airing … is through stronger alliances and partnerships at the local level. That means at the regional level, but not at the regional level to the exclusion of national interests….
>
> I consider it to be rather important to work with the provincial governments and recognize the important role the provincial governments can play in their relationships…. The more interdependent they become, the more dependent they become on each other, the stronger the Canadian voice in Washington will be.[34]

While the federal government and the provinces will obviously not always agree on every issue, the benefits of ensuring clear messages means that they should try to coordinate their efforts much more closely.

6. Increasing Contact Between Legislators

A unique avenue of communication also exists between Canadian parliamentarians and their U.S. counterparts. According to Jayson Myers of the Canadian Manufacturers and Exporters Association, "… close relationships between Canadian and U.S. policy-makers, together with Canada's ability to find allies within the U.S. and among other influential trading partners, are more important than ever in shaping policy outcomes in the United States."[35]

A bilateral Canada-U.S. Inter-Parliamentary Group has existed for decades, and in recent years has begun to move beyond the traditional formula of one annual meeting per year to address key issues in more depth. Later in this chapter the Committee will suggest the possibility of creating a trilateral inter-parliamentary group that includes Mexico. However, innovations are available even within the bilateral Canada-U.S. group, such as the possibility in exceptional circumstances of including Canadian ministers on delegations to help lobby and better educate key U.S. legislators.

More generally, Denis Stairs suggested that:

> … the primary objective of Canadian parliamentarians would be to try to deal with misunderstandings about Canada among people in the American Congress, and to enhance informal communication to the extent that it might be possible for a

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[34] *Evidence*, Meeting No. 87, June 4, 2002.

[35] *Evidence*, Meeting No. 55, February 5, 2002.

> congressman puzzled by a Canadian policy to call up a colleague in Canada to ask what the devil you folks are doing up here, so that you can explain things to them, and so forth. I know that sounds rather soft, but I'm not sure one can expect more than that out of a congressman-parliamentarian direct relationship. On the other hand, that could be very important, so if you have room to promote those sorts of contacts, I would certainly advocate doing so to the best of your abilities.[36]

Professor Andrew Cooper of the University of Waterloo also suggested that the Committee itself could

> … tap into organizations like … the Center for Strategic and International Studies, like the Woodrow Wilson International Center for Scholars, because doing so gives you access to a whole variety of people. The other is to do end runs. Even Jesse Helms went to Mexico with a committee. Why not grab attention in a different way by linking up in some way? That strategy obviously has its risks, but it opens up some possibilities at the same time. This is an older idea in Canadian foreign policy, going back to energy issues and to north-south issues in the early eighties, but it still might have relevance.[37]

The Committee accepts this challenge. It has already participated in the first joint meeting of the Canadian and Mexican foreign affairs committees in the course of this study and undertakes to do more along these lines with its Mexican and American counterparts.

7. Using Information to Get Canada's Message Across

An important component in managing the bilateral relationship is providing information, both to help Canadians understand the United States and its policies and, even more important, to ensure Americans understand Canada. A number of witnesses referred to the fact that some American commentators believed that September 11 terrorists had come from Canada, and noted that the popular television program *West Wing* spoke of terrorists crossing a non-existent Ontario-Vermont border as evidence of American stereotypes and lack of knowledge about Canada. While Deputy Prime Minister Manley's personal visit to Senator Clinton was undoubtedly helpful, a somewhat broader strategy might be needed as well.

The Committee was told repeatedly of the need to better promote Canadian trade interests in order to prevent or resolve trade disputes such as that over softwood lumber. A number of witnesses argued that to do this it was necessary to go beyond diplomats and Washington to bring Canada's message directly to consumers and industry associations in the United States. As Gordon Gibson noted: "Washington tends to be a producer's town rather than a consumer's town. If it were a consumer's town, the obvious interest of the American consumer in softwood lumber would have solved that problem for us."[38]

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[36] *Evidence*, Meeting No. 45, November 27, 2001.

[37] Ibid.

A number of witnesses therefore suggested launching an information campaign in the United States. According to Denis Stairs:

> ... it seems to me that we need a major public relations and advertising campaign in the United States to deal with any inconvenient misconceptions that we think they have of us. To do this, I think we need top-notch professional help. I wouldn't for a moment suggest how we do it, what the themes should be, who the targets should be, or how it should be executed. But we're going to have to spend a great deal of money getting that kind of assistance in mounting the campaign. Properly done, however, it seems to me that the job would be worth every penny.[39]

The advocacy funds available to DFAIT have been increased, and a small Canadian advertising campaign was undertaken last fall following the September 11 attacks. While the diversity of the United States would complicate such a strategy, the Committee believes an expanded campaign could be useful if properly targeted to key audiences. In order to ensure the greatest impact, the Canadian government should draw on the experience of industry associations that deal with the United States.

A number of witnesses also stressed the need to increase Canada's lobbying capacity. In the Washington context, Michael Hart emphasized that many agencies of the U.S. government have a very independent base of power, and therefore "Canadians need to be very active in dealing not only with the President and senior members of his administration, but with senior members of Congress and with senior representatives of a variety of interest groups who share our interests but who also need to be reminded of that fact."[40] Laura Macdonald of Carleton University suggested that funds be directed into an effective lobbying strategy. She noted that the "Mexicans have been extremely effective in hiring high-priced help in Washington and getting their people out there across Congress."[41] Gordon Gibson, a Senior Fellow at the Fraser Institute, underlined the need to "double and redouble our lobbying efforts" because Washington "is very much a lobbyist town. There are some 20,000 registered lobbyists."[42]

Recommendation 33

The Government of Canada should increase both the number of DFAIT personnel resident in Washington and the number of Canadian diplomatic consulates in strategic locations elsewhere in the United States. It should also again increase the advocacy funds available to

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[38] *Evidence*, Meeting No. 78, May 7, 2002.

[39] *Evidence*, Meeting No. 45, November 27, 2001.

[40] *Evidence*, Meeting No. 55, February 5, 2002.

[41] *Evidence*, Meeting No. 88, June 6, 2002.

[42] *Evidence*, Meeting No. 78, May 7, 2002.

DFAIT, and consult with industry groups and others in the design of targeted and coordinated information campaigns.

8. Avoiding Short-Term Linkages and Using Institutions

Responding to a question about linking issues, the Deputy Minister of Industry Canada, Peter Harder, admitted that "… any time you go through a period where some files are prolonged and difficult, as we are at present, it provokes the question." He added, however, that "the evidence suggests that over the longer term, it is not good for us to make linkages."[43]

Professor Joseph Nye of Harvard University, who has dual experience as a scholar of Canada-U.S. relations and a former senior U.S. government official, answered similarly:

> With the question on linkage, one of the things that struck me in the study I did of these U.S.-Canada disputes in the past was that the Canadians did very well when they unlinked. When you got an issue and dealt with it on its own merits, you tended to do quite well. Canada was often successful in lobbying in Washington or found an American interest or corporation that would work in Congress on Canada's behalf and so forth. When you link together, you get back to the fundamental difference in size. If you link everything together, you get back to the fact that the U.S. is ten times the size of Canada. So I would think linking is the wrong strategy. If you do linkage, essentially, you are in the domain of overall power, whereas when you do a particular area, you may win some and you may lose some, but you'll find in many areas you're actually quite capable of holding your own.[44]

In regard to Canada "holding its own", another important element in the management of the bilateral relationship has been the use of institutions (notably, at the binational level, such structures as the International Joint Commission and NORAD). In addition to Denis Stairs' remarks cited above concerning multilateral institutions, Stéphane Roussel argued that in the bilateral context "… institutions helped in the past to protect Canadian sovereignty rather than harming that sovereignty."[45] Beyond making the best use of existing institutions, Canada can also argue for both a strengthening of NAFTA institutions, as we recommended in Chapter 4, and for a consideration of broader North American structures and channels for influence, as we will suggest later in this chapter. As Brian Stevenson advised the Committee:

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[43] *Evidence*, Meeting No. 90, June 13, 2002.

[44] *Evidence*, Meeting No. 74, May 2, 2002.

[45] *Evidence*, Meeting No. 77, May 7, 2002.

> I think we have to use all the tools available to us. One of them, of course, is to develop coalitions with Americans who have common interests with us, and I think that's a very sensible thing to do. But I think that in the long term — we're not moving anywhere, so we're going to be here in the long term — we have to develop institutions and processes not only for trade but for a number of other issues we want to deal with the Americans on.

9. Giving Political Direction

The complexity of the Canada-U.S. relationship is such that it is impossible for any one minister to control effectively. At the same time, as Stephen Clarkson has recently argued, responsibility for Canada-U.S. relations is now even more divided than usual because Deputy Prime Minister Manley retained responsibility for security cooperation with the United States when he ceased to be Minister of Foreign Affairs. The situation with Minister Manley was the result of a combination of circumstances that are unlikely to be repeated.

As we noted in Chapter 1, however, there is a need for the Canadian government to concentrate more specifically on developing a clear strategy for its relations with the United States. The new Cabinet Committee on North American Relations recommended in Chapter 1 should pay particular attention to ensuring a clear Canadian message is delivered to the United States. In addition, the success in the security field of the Manley-Ridge process raises the possibility that such a delegation of responsibility for key files to high-level representatives could enable progress in other areas. While it might be unreasonable to expect such a process to resolve high-profile trade disputes, a number of the areas raised in earlier chapters might benefit from such attention.

Recommendation 34

The Government of Canada, using the new Cabinet Committee on North American Relations we have recommended, should identify specific areas of interest for enhanced cooperation. Specifically, the Government should encourage the United States to designate a high-level political representative and should pursue the model of cooperation that has been developed in the security field by the current Canadian Deputy Prime Minister and the current U.S. Homeland Security Director, proposed to become Secretary of the new Department of Homeland Security.

B. DEVELOPING CANADA-MEXICO RELATIONS

5.3 Getting Beyond Past Limitations

In Mexico City in March 2002, on the same day that the Committee was holding meetings its former chair, Foreign Affairs Minister Bill Graham, stated in an address to the Mexican Ministry of Foreign Relations: "... our countries are trading more; our private sectors are investing more; and our governments, our Parliaments, and the many non-governmental players are getting to know each other better and to a degree never before experienced. We are not only becoming better acquainted, but we are witnessing a convergence around an increasingly shared set of values and expectations as neighbours."[46] Indeed, the desire on both sides for such closer collaboration had been visibly expressed a day earlier in the Committee's historic televised joint meeting with Mexican congressional counterparts.[47]

The NAFTA relationship, now almost a decade old; the watershed democratic election of Vicente Fox as Mexico's president in 2000, and his administration's advocacy of closer North American cooperation; a continental focus following the events of September 11: all these have brought greater attention to the ties between Canada and Mexico. Before the NAFTA era — and it is worth recalling that NAFTA originated as a bilateral Mexican initiative with the United States to which Canada had reacted coolly — Professor Laura Macdonald observed: "... there were hardly any Mexican experts in Canada. Hardly anyone was interested in Mexico. We had this big mountain between us, the United States, and we couldn't peer over that big mountain to see each other."[48] Or if Mexico was noticed it was usually in comments like the following: "Canada and Mexico, as the saying goes, have only one common problem between them. This problem, of course, is their relationship with the United States."[49]

Even today, there is a tendency for such longstanding separate if parallel bilateral preoccupations to come to the fore. It is harder to sustain political engagement on the still-developing Canada-Mexico and trilateral agenda. Antonio Ocaranza, Director of Public Strategies Inc., described to the Committee in Mexico City a "difficult paradox: Mexico and Canada cooperation is most effective if it plays a significant role in each country's relationship with the United States. At the same time, it is the significant weight of the United States which impedes Mexico and Canada from being more effective in developing their bilateral relationship."[50]

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[46] Hon. Bill Graham, "Notes for an Address to the Mexican Ministry of Foreign Relations on Canada, Mexico and North America: A Community of Neighbours", March 14, 2002.

[47] A Spanish-language transcript of the March 13 meeting is available in hard copy.

[48] *Evidence*, Meeting No. 88, June 6, 2002.

[49] J.C.M. Ogelsby, *Gringos from the Far North*, cited in Anthony DePalma, *Here: A Biography of the New American Continent*, p. 233.

A bit of history provides some context for the current state of the relationship. Prior to the 1990s, Canada's relations with Mexico (and indeed with Latin American countries in the rest of the hemisphere) were both very limited and overshadowed by each country's particular bilateral focus on the United States. As several scholars describe that period: "While it is undoubtedly unfair to expect an equivalent relationship to that experienced with the United States, it is nonetheless notable that bilateral Canada-Mexico ties remained underdeveloped, at best, or ignored, at worst."[51]

Canada's 1990 decision to become a full member of the Organization of American States (OAS), followed by Canada's joining the Mexico-U.S. trade negotiations, which then led to the trilateral NAFTA, signalled a major policy shift. NAFTA, in particular, carried the relationship to a new level. Writing before the election of President Fox and the activist diplomacy pursued by his Foreign Minister Jorge Castañeda, Julian Castro Rea, a professor with both the Centre for Research on North America at the Universidad Autónoma de México and the University of Alberta, put it this way:

> NAFTA helped Canada and Mexico discover each other after many decades of a relationship that one could characterize as "polite indifference". The last five years have witnessed an unprecedented deepening of Canada-Mexico relations. Mexico and Canada now cooperate in a wide variety of issues that extend far beyond trade and include a comprehensive agenda that is assessed yearly by joint ministerial teams. Canada has become the most immediate alternative for Mexican desires to diversify its foreign relations, away from its overwhelming priority on the United States.[52]

Early evidence of a post-NAFTA widening and deepening of the bilateral agenda was the "Declaration of Objectives for the Canada-Mexico Relationship" and "Action Plan" signed by the two heads of government in June 1996. As well, notwithstanding the effects of Mexico's financial crisis of the mid-1990s, bilateral trade and investment posted impressive growth through the last half of the decade.[53] While Canada-Mexico trade is still a very small part of total NAFTA trade, the statistical tables in Chapter 2 show a more than five-fold increase in this trade since 1990. Indeed, the value of Canada's exports to

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[50] Antonio Ocaranza, written text of remarks to the Committee's first experts' panel at the Canadian Embassy, Mexico City, March 13, 2002, p. 3.

[51] Duncan Wood and George MacLean, "A New Partnership for the Millennium? The Evolution of Canadian-Mexican Relations", *Canadian Foreign Policy*, Vol. 7, No. 2, Winter 1999, p. 35. Professor Wood has been Director of the Instituto Tecnológico Autónomo de México, and Professor MacLean testified before the Committee in Winnipeg on May 6, 2002.

[52] Castro Rea, "The North American Challenge: A Mexican Perspective", *ISUMA*, vol. 1, no. 1, Spring 2000.

[53] Canada became Mexico's second-largest export market after the United States. And more recently, Canadian Ambassador to Mexico Keith Christie has predicted that in a few years Mexico might surpass the United Kingdom as Canada's third-most-important export market. (Cf. Christie, "Neighbours at Last: Canada and the New Mexico", *Horizons*, Vol.4, No. 4, September 2001, p. 6.)

Mexico increased by 93% from 1997 to 2001, compared with an increase of 44% in the value of Canada's exports to the United States over the same period. Priority export sectors identified by the Canadian government in regard to Mexico have included advanced manufacturing and information technologies, agricultural modernization, automotive products, and oil and gas equipment and services.

Beyond these burgeoning commercial ties, there has also been significant growth in civil-society linkages with Mexican NGOs, and in cooperation in the fields of higher education, training and research. In terms of people-to-people exchanges, DFAIT Assistant Deputy Minister for the Americas Marc Lortie told the Committee: "Now almost one million Canadian tourists travel to Mexico annually, with over 180,000 Mexicans visiting Canada. Canadian educational institutions host over 10,000 Mexican students annually, and 11,000 seasonal Mexican agricultural workers come to Canada."[54] Parliamentary exchanges with Canada, begun formally in 1975, have intensified too, and there is increased potential to benefit from these exchanges, given the push for democratic reforms within Mexico and the greater role being assumed by the Mexican Congress, in matters, *inter alia*, of foreign policy.

Despite such advances, Wood and MacLean, writing at the end of the 1990s, observed several remaining obstacles to be overcome in realizing a closer and fuller Canada-Mexico relationship.[55] The first and most obvious of these is the large gap in the level of development between the two countries. This is a persistent problem that is manifested in socio-economic and regional inequalities within Mexico that have grown despite the aggregate trade and investment gains promoted by NAFTA. These political and social, as well as economic, development challenges are perceived as holding Mexico back from being a full North American partner. They surfaced as a repeated and underlying concern during the Committee's meetings in Mexico City in March 2002.

Canadian policy towards Mexico has gone some way towards responding. As Marc Lortie stated to the Committee: "Mexico now sees Canada as a valuable partner in its efforts to address its many and deep-seated social, political, and economic challenges. Cooperation on governance has provided the new focus to bilateral relations.... Canada is clearly committed to helping Mexico reform its government institutions so that it may address overriding concerns of poverty and regional disparity. In addition, CIDA, primarily through the Partnership Branch, has disbursed an average of $7 million per year in Mexico over the past three years. This includes the Canada Fund for local initiatives, with $500,000 in annual funding for grassroots projects, most of which is disbursed in the poorest states in southern Mexico."[56]

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[54] Lortie pointed out that: "Canadian studies in Mexico are growing in popularity. A vibrant Mexican Association of Canadian Studies, with membership of over 250 academics, seven Canadian study programs at major universities, and over 350 university-to-university agreements is at the core of academic cooperation" (*Evidence*, Meeting No. 57, February 19, 2002).

[55] "A New Partnership for the Millennium?", *op.cit.*, p. 36.

[56] *Evidence*, Meeting No. 57, February 19, 2002.

A strong message conveyed by many Mexicans is that NAFTA has left unfinished business.[57] Equally, Mexicans would welcome increased Canadian partnerships (private-sector and non-governmental as well as governmental) in working, both bilaterally and trilaterally, to address Mexico's development challenges from an increasingly integrated North American regional perspective.

Two more subtle obstacles to closer relations were identified by Wood and MacLean: the lack of a deep understanding between the two countries at a broadly social and cultural level; and historic divergences in foreign policy goals, notably in the lack of a common security agenda and in sensitive areas such as human rights. The first may be gradually overcome through the educational initiatives and people-to-people exchanges noted above (including more Canadians learning Spanish;[58] unlike the United States, Canada does not have a large population of Mexican or Hispanic origin), improved communications and media links, and more public diplomacy, including regular contacts among Canadian and Mexican legislators.

The second issue of closer cooperation and coordination in international affairs has taken on a new light under the Fox administration and since September 11, 2001. Mexico was already a convert to trade liberalization and has now signed ten free trade agreements with 31 countries including those of the European Union. With regard to other multilateral arenas (and it should be noted that Mexico is currently serving a two-year term on the UN Security Council), under Foreign Minister Jorge Castañeda, there has recently been a pronounced shift away from Mexico's traditionally non-interventionist posture towards a position much closer to Canada's. As Castañeda has stated: "We are convinced that it is in Mexico's best interest to adapt itself to the new rules-based international system that is gradually emerging. We therefore now subscribe to the argument that certain principles are universal and beyond the sovereignty of the state."[59]

In continental security matters, however, Mexico has never enjoyed the decades-old closely integrated relationship that Canada has had with the United States through NATO and NORAD. Mexico's relationship with the United States along its northern border has also been a thorny one given issues such as illegal immigration and drug trafficking. Following the terrorist attacks of September 11, Mexico's border region — which has been its most economically dynamic even though still beset by social and environmental problems — quickly felt the negative effects of new U.S. security measures,[60] a situation with which Canadians can certainly empathize. While Canadian officials have tended to see the resolution of Canada-U.S. border access concerns as a separate bilateral discussion, the Mexican government has suggested the goal of a more comprehensive North American approach to securing continental borders without jeopardizing the growing volumes of trade and travel within the NAFTA area. For the moment there are two bilateral tracks. Canada was first off the mark in negotiating a 30-point "Smart Border" accord with the U.S. in December 2001. Mexico was, however, able to use that as a model in pursuing its own 22-point "Smart Border" agreement with the United States, which was signed by presidents Bush and Fox in Monterrey in March 2002 at the time of the UN Summit on Financing for Development.

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[57] This confirmed the observation of Castro Rea several years ago that, "So far, NAFTA has not reversed the trend toward an increased polarization of income in Mexico. ... Inequality is not only about social justice, it is also a serious limit to market expansion. As long as a sizeable share of the Mexican population remains in poverty, the 100 million people market south of the U.S. border dreamt of by promoters of NAFTA will remain unfulfilled." ("The North American Challenge: A Mexican Perspective").

[58] Worth noting is that Foreign Affairs Minister Bill Graham was taking Spanish lessons in Mexico at the time of his appointment to Cabinet. He also met with his Mexican counterpart several times in the first months as minister.

[59] Jorge Castañeda, "North American Partners: It takes three to tango", *Ottawa Citizen*, March 4, 2002, p. A13.

Interestingly, as Wood and MacLean observed, a few years ago it had been the Canadian government that seemed to be the prime advocate of "trilateralism" (then-foreign minister Axworthy in particular promoted the idea of developing a "community" relationship within North America that could also provide an "important model of regional cooperation"[61]), whereas the Mexican government was seen as most sceptical and wary of potential intrusions into Mexican domestic affairs.[62] A few years later the roles seemed to be reversed when the new Mexican administration of Vicente Fox presented a long-term "Vision 20/20" for such a continental community that was "met with polite scepticism in Ottawa" during Mr. Fox's first Canadian visit in August 2000.[63]

Canada now appears more ready to engage with Mexico on some aspects of a North American agenda. Speaking for DFAIT, Marc Lortie stated to the Committee before its visit to Mexico: "The Government supports the development of a North American relationship. President Fox has said that a common currency and customs union are long-term goals. Over the short term, we are working to identify issues that would be best served through trilateral engagement."[64] At the same time, the current Mexican government has clearly been the most enthusiastic about pursuing trilateral North American approaches and the "community" concept. Indeed, in Monterrey the Mexicans submitted proposals to Canada and the United States to further the study of ambitious initiatives along these lines.[65] Several senior Mexican officials who spoke to the Committee in Mexico City in March also suggested that some sort of expert group or commission might be formed, reporting to the three governments, as a possible vehicle for moving forward the agenda for trilateral cooperation.

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[60] Mexican border cities suffered some large job losses in the "maquiladora" export sector, though these may be mitigated by a U.S. consumer rebound and recent border initiatives. Other factors include the Mexican peso's appreciation against the U.S. dollar. There have been concerns that Mexican workers could lose out to assembly operations in lower-cost labour countries, notably China where the average hourly labour cost is US$ 0.22 compared with $2 in Mexico. (See "Mexico's Border Region: Opportunity Lost", *The Economist*, 16 February 2002).

[61] Hon. Lloyd Axworthy, "Global Action, Continental Community: Human Security in Canadian Foreign Policy", Address to a Meeting of the Mid-America Committee, Chicago, September 9, 1998.

[62] "A New Partnership for the Millennium?", p. 45.

[63] Stacey Wilson-Forsberg, *Overcoming Obstacles on the Road to North American Integration: A View from Canada*, Ottawa, FOCAL Policy Paper, November 2001, p. 6. For a critical survey of Canada-Mexico relations in the early months of the Fox administration, see also *Canada Watch*, Special Issue on the New Mexico under Fox: Is It Happening?, Vol. 8, No. 6, July 2001.

[64] *Evidence*, Meeting No. 57, February 19, 2002.

Although the Committee will examine such ideas more fully in the next section of this chapter, there are several caveats to be borne in mind at the outset in regard to such proposals. For one thing, President Fox and his National Action party (*Partido de Acción Naciónal*, PAN for short) do not command a majority in the Mexican Congress. That fact was underscored in a way that drew notice in Canada when on April 9, 2002 the Mexican Senate voted 71 to 41 to disallow the President's planned visit to the west of Canada (Vancouver and Calgary) and the United States.[66] This marked the first ever time that the Senate's obscure power had been used. It was not so much an issue of foreign policy as it was symptomatic of the domestic difficulties President Fox has faced in obtaining congressional approval for his multiple agendas, which may have raised unrealistic expectations.[67]

There is a related caveat for building Mexico's relations with Canada, and within a North American context. That is whether it is advisable to emphasize a sweeping vision or new institutional design for the North American relationship, such as Fox has suggested, at a time when not only is Fox's domestic standing uncertain but there appears to be little appetite for such a vision in U.S. governmental and congressional circles. A more achievable Canada-Mexico agenda might therefore concentrate on concrete progress in selected areas, and notably those pertaining to Mexico's priority development objectives and its expressed desire to attain a level of "economic convergence" with its NAFTA partners. In that regard, FOCAL's Stacey Wilson-Forsberg, whose June 2002 testimony before the Committee concentrated on the Canada-Mexico relationship, has argued that: "The most appropriate role for Canada would be to facilitate Mexico's ability to face its own challenges by providing financial support when possible, and more importantly technical assistance in the form of sharing knowledge and building capacity."[68]

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[65] Information from Michael Welsh, Director of the Mexican Division of the North American Bureau, DFAIT. It was expected that the Mexican proposals could be discussed by the three leaders during the APEC Summit hosted by Mexico in late October 2002. However, a planned trilateral meeting did not take place.

[66] Although the Fox visit was cancelled, that did not prevent a Canada-Mexico agreement on energy cooperation from being signed in Ottawa on April 12, 2002 by Canada's Minister of Natural Resources Herb Dhaliwal and Mexican Secretary of Energy Ernesto Martens.

[67] For an excellent review of the Fox administration's performance during its first year, see George Grayson, *Mexico: Changing of the Guard*, New York: Foreign Policy Association Headline Series No. 323, Fall 2001. See also the more recent assessment of the Fox agenda on North American integration, focusing on as yet unachieved reforms in key sectors of the Mexican economy, notably energy: Rogelio Ramirez De la O, *Mexico: NAFTA and the Prospects for North American Integration*, C.D. Howe Institute, November 2002.

5.4 What Mexicans Told Us

The Committee's meetings in Mexico, although condensed into several days, were rich in content. They convinced us of a growing Mexican interest in engaging Canada in a relationship that is not only more substantive in bilateral terms but also holds out the potential for realizing important social as well as economic gains through North American partnerships. While Canadian ambassador to Mexico Keith Christie remarked to us that the trilateral relationship is "perhaps a bit of an orphan" given the more urgent demands of each country's relations with the United States, he also emphasized the "very clear sense that Mexico's home is North America."[69] According to one analyst, "Mexico believes that Canada could function as a counterweight to U.S. power and that in the distant future the Mexican people would accept joining 'North America' over joining the United States."[70] This is at the same time a fluid period of North American relations when neither Mexico nor Canada should take anything for granted in their respective relationships with each other or their superpower neighbour.[71]

In the Committee's March 13, 2002, meeting with the Foreign Relations Committee of the Mexican Senate, in which other members of the Mexican Congress participated, Committee Chair Senator Fernando Margain was among those expressing the desire for closer friendship and cooperation with Canada on matters ranging from borders and migration to the environment. He noted some 35 bilateral agreements reached between Mexico and Canada to date. The ensuing discussions touched on a range of areas for building on that cooperation, from tourism to cultural exchanges, education and training, seasonal workers, migration, and border issues.

At the same time, Senator Sylvia Hernandez, Chair of the North America Committee, referred to Canada and Mexico as still having a "paradoxical relationship" that has not yet realized its full potential given the frequent fixation of each country on the United States. And despite common challenges of managing the huge asymmetries across North America or confronting U.S. trade protectionism, neither country has done much to form "strategic alliances" around issues or to persuade the United States of the merits of moving trilaterally. She suggested it was time to think in terms of newer trilateral as well as older bilateral types of engagement, notably at the parliamentary level. In that regard, she also hoped that inter-parliamentary engagement could be focused on concrete agendas that would continue to develop around common interests and objectives.

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[68] Wilson-Forsberg, *Canada and Mexico: Searching for Common Ground on the North American Continent*, Policy Paper, March 2002, p. 1.

[69] Oral briefing, Mexico City, March 13, 2002.

[70] Stacey Wilson-Forsberg, *North American Integration: Back to Basics*, p. 4.

[71] Mexico's northward orientation still seems most apparent in geo-economic terms, largely as a result of NAFTA. (See "With Latin America heading south, Mexico turns its horses north", *The Economist*, August 31, 2002, p. 26-27.) In socio-cultural identity terms, however, DePalma has observed: "Few if any northerners would call Mexicans North Americans, and no Mexicans I ever met were willing to describe themselves as North Americans" (*Here: A Biography of the New American Continent*, p. 146). The cancellation of a planned trip to Texas by President Fox in August 2002 also indicates a resurfacing of political strains in a U.S.-Mexico "relationship that isn't working very well", according to Peter Hakim of the Inter-American Dialogue (see "Mexico-U.S. ties frayed by execution", *The Globe and Mail*, August 16, 2002, p. A9).

Whereas security imperatives dominated the Committee's meetings in Washington, these were a relatively subordinate issue for Mexican interlocutors. Most were more concerned with seeing that, in addition to the NAFTA trade agenda, North American cooperation includes a social or "human development" dimension aimed at addressing poverty and persistent disparities, and also at promoting democratic participation and public accountability. The relative youth of Mexico's population compared with Canada's may be a source of future demographic advantage, but it is also a challenge in providing better jobs and incomes and in meeting Mexicans' expectations of an economy that has increasingly tied itself to a North American destiny (a point underlined by Scotiabank Mexico's President, Peter Cardinal, who also chairs the Canadian Chamber of Commerce in Mexico City).

While many Mexicans would prefer to see more trilateral than strictly bilateral approaches taken, they acknowledged as did Rafael Fernando de Castro of the Instituto Tecnológico Autónomo de México, that the "trilateral agenda is very elusive." At the same time, as Gustavo Vega of the Colegio de México put it, "September 11 has added a new dimension to NAFTA" in dramatically underlining the risks of border disruptions to the functioning of the continental economy. Several witnesses were concerned about where this might lead. For example, Mr. Vega's colleague Monica Serrano mentioned learning what to avoid from Mexico's experience with a "criminalization of migration" and "militarization of the border." However, former ambassador Andrés Rozental, president of the newly formed Mexican Council on Foreign Relations, pressed the case for proceeding with North Americanized approaches even in the sensitive border and security-related areas. And, he added: "We will never have an integrated North America without freedom of movement of people."

Mr. Rozental, along with senior Fox administration officials (Under Secretary of Foreign Affairs Enrique Berruga, Carlos Flores Alcocer from the office of the President, and Luis de Calle, Secretary for International Trade Negotiations), argued for much greater attention to the structures and processes that might broaden the North American agenda beyond NAFTA — a step they considered necessary. As Mr. Berruga put it: "In this country we are ready for a North American community." What started out as a "club of free traders" ought to mature into a "club of nations on security" and development, he urged. On institutional mechanisms, Rozental saw that a "regular organized permanent forum for the North American governments would be useful"; however, in his view even more important would be to create a "wise persons" group or something similar to do some farsighted thinking, not simply react to events. Flores Alcocer suggested having

North American working groups or task forces that could engage multiple stakeholders, and also put forward the idea of a "NAFTA development council."

Several witnesses (e.g., economist Antonio Ortíz Mena L.N., and former International Trade Minister Jaime Serra Puche) concentrated on measures that could be taken within the existing NAFTA framework. Others took a more critical view of that framework, arguing that a stronger governance regime was needed, both to better manage integration processes within the North American economic space — addressing problematic issues such as the Chapter 11 investment provisions — and to distribute the benefits of economic growth more widely. For example, Professor Isidro Morales supported Robert Pastor's idea of establishing a "North American commission" to prepare the way for that larger vision. In Morales' view, such a commission "must have some autonomy from national agendas."

Other social scientists such as Maria Teresa Gutierrez Haces emphasized more the need for widening civil society involvement in the articulation of any common North American project. This could be done through national public debates and input from what Guadalupe Gonzalez referred to as a "more dense web of social networks", not just hearing from business interests and elite spokespersons. Professor Gutierrez Haces suggested "there needs to be a change of attitude" on this. In her view, Canada-Mexico relations could also be strengthened at a societal as well as political-economic level through taking cooperative problem-solving approaches to matters of shared interest — e.g., addressing NAFTA's deficiencies, concerns over Chapter 11, resources, environment, etc. — while respecting each other's national sensitivities, such as Mexico's on energy and Canada's on culture.

In addition to growing political, business, educational and NGO contacts, Mexicans expressed the hope for more knowledge-sharing with Canada on a wider scale. Mexico can benefit from Canadian experience and support in a number of governance-related areas (e.g., public administration and fiscal management, local government, indigenous communities, human rights, and democratic development). Some bilateral cooperation agreements are already in place, but more could be done, notably in the areas of culture, education and skills training. Also, as Antonio Ocaranza pointed out, Mexicans and Canadians seldom hear much about each other; only a couple of media correspondents are actually based in either country.

With respect to Canadian support for Mexico's socio-economic development efforts, there was some discussion of possible regional social-funding mechanisms. Several witnesses alluded to the European Union's experience of creating "structural funds" to assist less-advantaged member states and regions. Such funds, of course, would go well beyond the existing small amounts Canada has channelled through CIDA and our embassy. Mexicans generally supported the idea of an additional development fund, ideally constituted on a trilateral basis. Jaime Serra Puche cautioned, however, that any such instrument should avoid in practice the mistakes of the U.S.-Mexico North American Development Bank (NADBank), set up to address border environmental concerns; in his view, that institution has not delivered on its promises. The question of trilateral cooperation is revisited in the last part of this chapter.

Overall, Mexicans presented the Committee with a challenging picture that encouraged closer future cooperation, but also put it in the context of a number of conditional elements being given more serious reflection than had been the case until recently. In that regard, the following perceptive observations from Antonio Ortíz-Mena Lopez Negrete deserve citing:

> … support for greater economic integration will require demonstrating that it will promote economic well-being for a significant majority of the population, and enhance security. For the United States, the paramount concern in the near future will be security. For Canada and Mexico, both security and economic issues will drive or hinder further integration in North America. Greater economic interaction between these two countries will help offset the exceedingly high concentration of trade and investment relations each of them has with the United States and may help alleviate the uneven distribution of gains from trade that has so far been the norm in Mexico. If greater integration coupled with supportive measures, as described above, allows societal groups that have so far been largely marginalized by the integration process to start playing an active role in international economic activities, this will translate into greater cultural diversity among the stakeholders of integration, and would allay fears regarding "cultural imperialism" and a homogenization of culture in North America along [the lines of] United States preferences and practices.[72]

5.5 Surveying Canadian Views

As indicated in earlier sections of this report, a few witnesses, such as Rod Hill in New Brunswick, had little interest in pursuing closer ties with Mexico. And notwithstanding NAFTA, business attention to Mexico tended to be overshadowed by a bilateral U.S. focus. This was strongly defended by Michael Hart, who stated that: "There is really no fundamental relationship between Canada and Mexico. Every time I go to Mexico, I'm reminded of just how thin that relationship is."[73] Robert Keyes of the Canadian Chamber of Commerce observed that "Canada-Mexico is a long way behind where the Canada-U.S. relationship is, and that has to be our primary focus." Asked about contacts with Mexican counterparts, he replied: "Have we had a detailed discussion on NAFTA integration or our bilateral relationship and where it's going? No, we haven't."[74]

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[72] "The Future of Integration in North America", written notes prepared for the Committee's second panel of experts, Mexico City, March 14, 2002, p. 4.

[73] *Evidence*, Meeting No. 55, February 5, 2002.

[74] *Evidence*, Meeting No. 89, June 11, 2002. Asked about a new bilateral Canada-Mexico energy cooperation agreement which had just been signed, Larry Morrison of the Canadian Association of Petroleum Producers replied: "On Mexico, I'm not really familiar with that; I have a vague awareness of it. I believe it's just building on the provisions of the North American Free Trade Agreement and opens up new trade possibilities between Canada and Mexico." (*Evidence*, Meeting No. 80, May 8, 2002)

At the same time, there was significant recognition of a potential economic challenge for Canada. For example, Jayson Myers of the Canadian Manufacturers and Exporters referred to "the increasing competitiveness of Mexico as an investment location, and of Mexican industry in the North American marketplace.... The Mexican market has tremendous growth potential, and it has the advantage of youth on its side. More engineers are being graduated today in the city of Monterrey than in all universities across Canada. All this means that Mexican competition now has to be factored into the design and the assessment of public policy. In many respects, Mexico has become the benchmark Canada has to surpass in building a more competitive business environment."[75] Industry Canada Deputy Minister Peter Harder acknowledged that Mexico "is moving up the value chain extraordinarily fast, and we must pay attention to that. Canada has yet another incentive to innovate and increase productivity to compete effectively in the United States with other international exporters, Mexico included."[76] Professor Isaiah Litvak urged that Canada take Mexico seriously as an important economic partner in its own right. As he put it: "It is imperative that Canada develop stronger linkages with Mexico and achieve a better understanding of the economy in Mexico or the political system in Mexico and explore way and means by which Canada can become more active in developing business with Mexican operations.... We should look at the Mexicans from the standpoint of what can we do to succeed in Mexico."[77]

With respect to border and security-related matters, there has been a similar and understandable tendency to focus on the United States first. George MacLean also observed that Mexico's desire "to be more integrated in a defence context with the United States ... hasn't been reciprocated in any real way in Washington."[78] However, along with other witnesses, notably in Quebec, he strongly supported closer ties with Mexico as part of a Canadian strategy of counterbalancing U.S. dominance through multilateralism in the Americas. Stéphane Roussel of York University sided with the Mexican view that "it is not possible to have a two-tier free trade agreement. It is not possible to have a second-class member. And by that I mean Mexico. Economic integration requires security integration. The two are closely linked, and I do not think that we can leave Mexico on the sidelines for very long."[79] Stephen Clarkson welcomed "that aspect of NAFTA that has drawn us closer to Mexico. ... It has broadened our horizons, and it does give us someone with whom we can negotiate in Washington on some issues." He agreed with Roussel "that on the border questions we're going to be pushed to deal with them in a common way. We can't just say that the Canadian border is so totally different from the Mexican-U.S. border that we don't want to talk with the Americans and the Mexicans at the same time."[80]

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[75] *Evidence*, Meeting No. 55, February 5, 2002.

[76] *Evidence*, Meeting No. 90, June 13, 2002.

[77] *Evidence*, Meeting No. 87, June 4, 2002.

[78] *Evidence*, Meeting No. 75, May 6, 2002.

[79] *Evidence*, Meeting No. 77, May 7, 2002.

[80] *Evidence*, Meeting No. 77, May 7, 2002.

On a more general level, George Haynal in an early panel saw the potential for Canada-Mexico relations continuing to blossom, despite a limited pre-NAFTA past, out of what he referred to as "the 'bud of a new North Americanism', as distinct from the convergence of the two bilateral axes centred on the United States." In his view, Canada can approach Mexico as "a close partner of the United States who see the world in a way compatible with ourselves." Arguing that "nothing could be worse than having a competitive dynamic between us in the management of this relationship", Haynal said: "We have and want in Mexico a partner on the international stage who can help us pursue our values in the multilateral system while we have one. There's a mutual interest in systemic cooperation — because every comment I made, I believe is reflected on the Mexican side — a cooperation that builds a North American identity, that does not exclude the United States but is focused on a basic objective that it shares: the creation of compatibility within our separate systems so as to make a closer cooperation and mutual benefit possible."[81]

Brian Stevenson also emphasized what he called "the collateral relationship, the shared bond between Canadians and Mexicans about their relationship to our common neighbour".[82] But more than that will be needed if Canadians and Mexicans are to deepen their relationship within a North American partnership. As Laura Macdonald put it: "Mexico does represent a possible useful counterweight to the United States, if we can overlook our differences and tendency towards competition and get to know each other better. Mexicans share Canadians' concerns about sovereignty, and we have many commonalities in our foreign policy perspectives. However we need to recognize that North America is a highly asymmetrical region, and to date there has been insufficient attention to the economic and other inequalities that exist between and within nations of the region, and that may, in fact, have been intensified by the neo-liberal model of integration that has been pursued so far in North America."[83]

Stacey Wilson-Forsberg of FOCAL offered a further compelling assessment of the situation and its implications for Canadian policy:

> While still a country of haves and have-nots, Mexico is moving full force ahead in industry, manufacturing, and technology. It is skipping most of the 20th century technologically, and could become an economic tiger within the next twenty years. This would create an enormous consumer market for U.S. and Canadian products and services, as well as tremendous opportunities for partnerships and cooperation on a number of issues.
>
> Canada and the United States need to give serious thought to where Mexico fits into this North American strategy. Ignoring the country at this particular moment in

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[81] *Evidence*, Meeting No. 56, February 7, 2002.

[82] *Evidence*, Meeting No. 82, May 9, 2002. Dr. Stevenson referred to a forthcoming book that he has co-edited with Michael Hawes and Rafael Fernandez de Castro, *Relating to the Powerful One: How Canada and Mexico View the USA*.

[83] *Evidence*, Meeting No. 88, June 6, 2002.

> its history could prove to be a big mistake. Yet Canadians cannot be convinced of the value of working with Mexico if they know little about that country. Since NAFTA was implemented in 1994, the broadly based fear of Canadians that their jobs would be displaced to Mexico has been largely refuted. Numerous polls show that the Canadian public has lost its economic fear of Mexico, but that fear has not been replaced by anything approaching a broad-based understanding of Mexico, particularly in the area of social and political realities.
>
> Economically, NAFTA has injected a tremendous amount of new energy into the Canada-Mexico relationship. There is, however, tremendous opportunity for more trade and investment between the two countries. Canadian companies need to develop a long-term strategy when setting up business in Mexico, and they cannot go for the purpose of chasing cheap labour. They need to be dedicated and not pack up and leave at times of political and economic instability.
>
> At the ministerial level, Canada-Mexico political linkages are now informal and natural, and a book-length inventory of bilateral cooperation initiatives between Canada and Mexico could be composed. However, while daily interactions occur between some federal and provincial government departments in Canada and Mexico, most suffer from a lack of understanding or an incomplete understanding of each other.[84]

Both Professor Macdonald and Ms. Wilson-Forsberg recommended deepening and broadening knowledge-based interactions of all kinds between Canada and Mexico — for example, through an expansion of existing exchanges, forums for dialogue, working-level interchanges and study tours, non-governmental linkages, research programs and the like.[85] Government has a role to play in supporting this and encouraging public participation in the development of Canada-Mexico ties.

Canada could also play a larger development cooperation role in Mexico, Macdonald suggested, noting that "while the per capita income levels in Mexico may be relatively good, the profound and growing inequities in Mexican society mean that there are large numbers of Mexicans living in poverty, particularly the indigenous peoples, peasants, and women, who need assistance."[86] We should not forget that Mexico is still a developing country. Janine Ferretti of the NAFTA Commission for Environmental Cooperation had pointed out that it is "very difficult for Mexico to work together as a full partner with Canada and the United States in efforts to address common environmental issues. We find Mexico has a hard time even coming up with the resources to get to meetings, let alone put in place the technologies or the infrastructure to actually address an environmental issue."[87] And Dr. Mario Polèse observed that within Mexico it is very clear that some disparities are increasing — for example, "southeastern Mexico is becoming marginalized "— and that politically some form of "regional adjustment fund" is required.[88]

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[84] Ibid.

[85] For an example of some recent exchanging of perspectives, see "Deepening Knowledge of Mexico", *Horizons*, Policy Research Initiative, Ottawa, vol. 5 special issue, May 2002. In terms of the need to improve a shared knowledge base and channels of communication, Antonio Ocaranza had remarked to the Committee in Mexico City: "Our governments talk better than our societies."

[86] *Evidence*, Meeting No. 88, June 6, 2002.

[87] *Evidence*, Meeting No. 62, February 27, 2002.

There are difficulties, however, in defining both the how and the why of additional external assistance and what role Canada might conceivably play. Macdonald was supportive of a regional fund idea, but warned about "an unfortunate tendency in Mexico, because of its long history of a strong statist, centralized, and authoritarian system, to have a top-down approach. I think we need to work with Mexicans to develop a more bottom-up, gender-equitable development system."[89] Wilson-Forsberg had more reservations given that no one, including advocates in Mexico, had yet come up with the details of how such a development finance mechanism would work in practice. As she put it: "Until these details are articulated, I don't think this development fund approach can even be discussed. It's very difficult to see Canada's interest or stake in this development fund idea. In the United States, it's a little more obvious, with the migration problem."[90]

5.6 Towards a Strategic and Substantive Canada-Mexico Engagement

On the eve of the Committee's visit to Mexico City, Joseph Tulchin, Director of the Latin American Program at the Woodrow Wilson International Center for Scholars, expressed to Committee members in Washington, D.C., his view that there is "space for Canada to operate between the United States and Mexico … [but that] this is a future challenge that has not yet been taken up." Mexico, he indicated, had higher expectations of the engagement with Canada that would follow in NAFTA's wake. He suggested, however, that there "hasn't been any special relationship developed that would confront" the asymmetries of power each country faces in relating to the United States in a North American context.

While some of the Committee's witnesses seemed rather indifferent to this possibility, others argued forcefully that Canada should look to Mexico as a logical "counterweight" to a dominant U.S. influence. Mexican opinion was virtually unanimous in encouraging more Canadian involvement, working within a North American as well as bilateral framework. Under Secretary of Foreign Affairs Enrique Berruga underlined that point to the Committee in Mexico City when he suggested that, through strengthened partnership, "the leverage of Canada and Mexico could increase with our common neighbour, the U.S."

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[88] *Evidence*, Meeting No. 89, June 11, 2002.

[89] *Evidence*, Meeting No. 88, June 6, 2002.

[90] Ibid.

In an address to a recent conference on North American integration, Mexico's ambassador to Canada, Mrs. María Teresa García Segovia de Madero, has also put the matter somewhat provocatively:

> One of the motives behind the concern of probably losing identity is that a vast majority of North Americans would be thinking that the U.S., being the hyper-power, will be the one setting the guidelines of the political convergence process. This perception may be strengthened in the aftermath of September 11th. It may be true. But the "strategic" alliance between Mexico and Canada can diminish the power asymmetries and thus [allow them to] work in a joint fashion and bring in their own inputs.
>
> Mexico and Canada share values that are not shared with the Americans. ... Canadians and Mexicans are particularly more tolerant to immigration, for instance. This type of natural bonding should be seized by the Mexican and Canadian Governments to advance in the negotiation process vis-à-vis the United States. These value commonalities between Mexicans and Canadians should be the basis of the "strategic partnership."[91]

Of course, not all Canadians would necessarily share that view of a natural Canada-Mexico convergence around policies and strategies. Some of our witnesses saw Canada as having quite different priorities, and some continued to emphasize a bilateral route to dealing with the United States. However, the Committee takes the position that it will be to Canada's long-term disadvantage if we do not pay more attention to the realities of Mexico's growing weight within North America and develop policies that address the still largely unrealized potential of our relations with Mexico.

This is not just a matter of seeking to use Canada-Mexico relations as a strategic "counterweight" to U.S. influence and a way of avoiding a "hub and spoke" bilateralism. There are a number of areas in which intensified contacts and cooperation merit consideration in their own right. For example, the most recent Canada-Mexico inter-parliamentary meeting held in Canada in May 2002 (co-chaired by Senator Sylvia Hernandez, who had co-chaired our meeting with Mexican legislators in Mexico City) discussed the potential for cooperation in the fields of energy development, "smart borders" and "trade corridors," migration and labour rights, improved NAFTA disputes resolution, and possible new North American institutions. That meeting's call for enhanced parliamentary cooperation to advance a shared agenda echoed the message from the Committee's March 2002 meeting in the Mexican Congress.

In sum, while many details remain to be worked on, and while moving to the next steps of broader trilateralism may still be an "elusive" goal, there are more than sufficient reasons for Canada to go forward on a basis that serves our national interests and values. Canada's strategic engagement in developing relations with Mexico may need to be pragmatic and selective; it should also be substantive and sustained.

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[91] "Marketplace may not equal Community: Not 'Here' Yet? Preliminary Survey Findings", Written text of remarks to the PPF/EKOS Conference on Rethinking North American Integration, Toronto, June 18, 2002, p. 10.

Recommendation 35

The Government of Canada should work to develop closer relations with Mexico, in particular through:

- **increasing support for initiatives to deepen Canadians' and Mexicans' knowledge of each other, especially in policy-related areas that are becoming more important in North American terms;**
- **identifying on an ongoing basis specific aspects of North American relations that warrant the development of more strategic collaboration with Mexico in the Canadian interest, and exploring bilateral Canada-Mexico collaboration that may include joint rather than separate dealings with the United States;**
- **expanding Canada's program of bilateral cooperation with Mexico, and investigating the feasibility of increasing Canadian support for Mexico's development efforts, targeting to areas of greatest need and including consultations with a broad range of non-governmental stakeholders;**
- **involving parliamentarians as much as possible in the deepening of the Canada-Mexico relationship and supporting more inter-parliamentary deliberations on major bilateral and North American policy issues and taking the findings into account. Consideration could also be given to the participation of Canadian ministers in inter-parliamentary forums where that is deemed appropriate by the parliamentary representatives to such forums.**

C. PURSUING THE PROMISE OF TRILATERAL RELATIONS IN NORTH AMERICA

In North America the most significant trend at the end of the previous century was that states came closer together as a region. Inventing North America as a region may remain the most intriguing prospect for the United States, Canada and Mexico well into this century.

Guy Poitras, *Inventing North America: Canada, Mexico, and the United States*,
Lynne Rienner Publishers, Boulder, Colo., 2001, p. 2.

Our governments must start thinking strategically about how to respond to the changing North America, its opportunities and challenges.... Ultimately, what we will be talking about is building the future of North America. This will mean identifying those areas where the three countries share an interest in building a stronger North American framework, and assessing whether we have the right tools for this important job. We are only at the beginning of defining the future of the North American Community.

Hon. John Manley,
Address to the Canadian Society of New York, April 9, 2001.

Although North America is certainly a most powerful region of the world, it is not yet much accustomed to thinking in regional terms. Relations among the countries of North America have been explored, but usually with a focus on the United States and, until the NAFTA era, rarely in any trilateral sense.[92] As we have seen in Chapters 2 and 4 of this report, there are strong forces of economic integration at work within an emerging North American economic space that call for proactive policy responses if they are to be managed to Canada's long-term advantage. But beyond the minimally institutionalized NAFTA framework[93] examined in detail in the previous chapter, there is little in North America that corresponds, on this side of the Atlantic, to the explicitly socio-political and even constitutional "community"-building approaches that characterize the present integrationist path of an enlarging European Union.[94]

Some witnesses would clearly object to anything that might accompany, expand or deepen a North American economic integration process they believe has already gone too far. Others were sceptical of developing the trilateral elements of North American relations or argued for staying focused on current core bilateral economic and security arrangements, at least in the short term.

Michael Hart, for example, stated bluntly: "I think it's wrong to say we have a North American community. We do not have that. We have a North American Free Trade Agreement that provides the basis for two free trade agreements, one between Canada and the United States, and one between the United States and Mexico." He went on to contend that the Americans, while they have many bilateral issues with Canada and Mexico, are "no longer interested" in pursuing discussions on these issues "on a North American basis."[95] Even strong proponents of including Mexico in Canada's policy thinking have concluded: "From Canada's point of view, it is still not clear what could be achieved by working trilaterally with the United States. There are relatively few issues that really involve the three countries, at least in the sense of shared political or social policy objectives. ... Canada's principal interest in a North American approach is the protection and enhancement of its privileged relationship with the United States."[96]

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[92] Among Canadian sources see, for example, the evolution from W. Andrew Axline, ed., *Continental Community? Independence and Integration in North America*, McClelland and Stewart, Toronto, 1974, to Stephen Randall et al., eds., *North America Without Borders? Integrating Canada, the United States and Mexico*, University of Calgary Press, Calgary, 1992; and Herman Konrad, "North American Continental Relationships: Historical Trends and Antecedents," in Stephen Randall and Herman Konrad eds., *NAFTA in Transition*, University of Calgary Press, Calgary, 1995, which marks a significant departure by giving considerable attention to the Canada-Mexico dimensions of continental relations and an "emerging trilateralism."

[93] Although some analysts claim, as does Stephen Clarkson, that NAFTA established a "constitution-like" continental regime, at least for economic relations, this has not been manifested to any extent through common trilateral institutions. Stephen Randall's observation still seems apt: "The failure of NAFTA to establish an umbrella organization which might take decisions buffered somewhat from the vagaries of domestic politics in any of the countries reflects the very traditional nature of the NAFTA agreement and the mutual jealousy of national sovereignty that exists among its neighbours." ("Managing Trilateralism: The United States, Mexico and Canada in the Post-NAFTA Era," in Randall and Herman eds., *NAFTA in Transition*, 1995, p. 45).

[94] Since the 1957 Treaty of Rome, which established the European Economic Community, and the 1991 Maastricht Treaty transforming it into the European Union, additional treaties have been adopted. A Convention on the Future of Europe is currently considering what should be the next stage of constitutional development of an "ever closer union," in the context of the EU's prospective enlargement to 25 or more members within the next few years. A last hurdle to that enlargement was removed on October 20, 2002, when the Treaty of Nice was approved in a second Irish referendum after failing to pass a 2001 referendum in that country.

[95] *Evidence*, Meeting No. 55, February 5, 2002.

Still, even if this were so, it does not mean Americans or Canadians could not become more interested in genuinely North American approaches, or that Canadians might not have good reasons of their own for promoting such trilateral approaches. Indeed, without a trilateral context, the value of developing Canada-Mexico relations as a strategic counterweight to the asymmetrical power of U.S. influence seems greatly diminished: it would count least in the area, that of North American relations, where presumably it matters most. Furthermore, witnesses pointed out that any initiative on trilateral cooperation would be best to come from Canada or Mexico (or perhaps from both jointly). Otherwise, it would almost automatically be perceived as a "big brother" imposition, thereby dooming the effort.

A few years ago, former Canadian foreign minister Lloyd Axworthy, who has consistently defended the need for Canadian foreign policy autonomy vis-à-vis the United States, provoked some reflections related to how that might be done when he spoke of getting "North American cooperation right." As he told a U.S. audience: "At the moment, Canada, the United States and Mexico are all dealing separately with issues such as crime, drugs and terrorism — sometimes in ways that have the unwanted side effect of raising new barriers along our borders.... We need to update our shared instruments and institutions to deal with the challenges across a broad spectrum: everything from our shared natural environment to movement of goods and people, and to education and human resources."[97] Under Mr. Axworthy's guidance there was the beginning of a trilateral process, with a "Framework for North American Partnership" agreed to at the foreign ministers' level. After returning to private life he observed: "There was considerable bureaucratic resistance and little analysis or understanding, yet this embryonic effort revealed enormous potential for cross-border community- and institution-building."[98]

Mr. Axworthy clearly believes this is still the case in the post-September 11 environment. Indeed he suggested to the Committee in Vancouver that having in place a more established ongoing trilateral framework for North American relations would help to protect Canadian sovereign interests, including those in the sensitive areas of security and defence cooperation. As he put it: "We haven't pursued the trilateral mechanisms, even though I thought they were beginning to really bite fairly substantially in a number of key areas — energy, resources, cross-border issues. But the point is there were regular meetings — three or four a year — between the three foreign ministers. They spun off a number of organizational requirements, so that there was this overview or oversight."[99]

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[96] Stacey Wilson-Forsberg, *North American Integration: Back to Basics*, p. 4 and 6. The recommendation in this FOCAL policy paper is that: "The three countries should focus on developing the existing bilateral relationships, and enhancing the effectiveness of bilateral institutions and policy approaches. They should also ensure that the full potential of NAFTA is realized along with its side accords and institutions."

[97] "Global Action, Continental Community: Human Security in Canadian Foreign Policy," Address to a Meeting of the Mid-America Committee, Chicago, September 9, 1998. These ideas were later presented in an address to the Canadian Institute of International Affairs 1998 Foreign policy Conference in Ottawa, October 16, 1998.

[98] Hon. Lloyd Axworthy, "A Changing North American Agenda," *Looking Ahead*, Journal of the National Policy Association, Washington (D.C.), July 2001, p. 9-10.

The Committee is keeping an open mind on these matters. We believe that where opportunities exist for strengthening trilateral ties on a basis that serves Canadian interests, these opportunities should be pursued. However, we do not foresee such pragmatic engagements as leading to some grand "architecture" of North American political integration. Moreover, we have reservations about how much can be achieved and how soon. Linked to that are questions about how any trilateral structures and processes that might be established to advance regional cooperation would also be made subject to the democratic oversight of Canadian citizens.

WHAT WITNESSES SAID

I think that all hypotheses other than a free trade area, including a customs union with common trade policies, a common market, even more so, and economic union with common currency and common policies, etc., necessarily raise a major problem regarding the decision-making authority in the operation of these arrangements.

Whenever a power such as the United States is dealing with Canada and Mexico, in the determination of a common policy, there are two possibilities: either the United States agree or it does not agree. If it does not agree, the policy does not go forward; it agrees, it goes forward.

The question is whether two countries could manage to oppose an American policy. The question remains outstanding, but as you can imagine, this is not an arrangement that promises to be particularly functional in decision-making terms, unless we give in most of the time.

Ivan Bernier, Laval University,
Evidence, Meeting No. 60, February 26, 2002.

... public opinion surveys in all three countries say that a majority in each of the three countries are prepared to experiment with being part of a North American entity, provided they're convinced it would improve the standard of living, not threaten culture, and improve the environment. But they make it clear in Canada and Mexico that they don't want to be part of a wider United States. I think that broader vision of a North American entity, which is different from the three countries but shares a sense of community, is a direction many of the people may aspire to and we ought to look more closely at.... This is a moment in which the absence of leadership on the part of the United States provides a new avenue for both Canada and México to put forward their ideas. If you put forward your ideas together, you will get an audience in the United States. Whether the administration accepts them right away will largely depend on the nature of that agenda. But I think they will be taken seriously in certain sectors, and will influence the nature of the debate.

Robert Pastor, Emory University,
Evidence, Meeting No. 56, February 7, 2002.

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[99] *Evidence*, Meeting No. 76, May 6, 2002.

If Canada wants to have a strategy to deal with what could be called the political deficit and the institutional deficit in the current construct of North American continental integration, if people agree with me that NAFTA has created an integration situation that requires political cooperation mechanisms that do not currently exist, that are needed and that affect Canadian interests, I believe that a good strategy for making progress in this area is to take an incremental approach. In particular, we need to avoid extremely ambitious models that would obscure our objectives, raise suspicions, probably frighten off the Americans and prevent us from achieving success at the negotiating table on more immediate issues or perhaps less ambitious ones.

Louis Bélanger, Laval University,
Evidence, Meeting No. 60, February 26, 2002.

We need a North American constituency. Increasing awareness of each other, and of the community we're building, is important in and of itself because it broadens our horizons and deepens our understanding of ourselves. … In a very real sense the big question is how much do we invest in our attempt to understand and explain non-trade relations in North America and in forging a sense of community? It would appear we have invested too little. If we truly value the economic relationship we have with the United States, and we most certainly should, or the one we're building with Mexico, then we should nurture the social, political, academic, and cultural dimensions as well. This is about bringing people together. We've done a good job establishing the hardware, but we cannot operate without good software. We need an operating system for North America. The question is, who will write the program?

Brian Stevenson, University of Alberta,
Evidence, Meeting No. 82, May 9, 2002.

Canadians are still not particularly interested in Mexicans, and vice versa, despite all the rhetoric … [but] we have to start talking in genuine North American terms, that is, with Mexicans as well as Americans, and stop pretending we're the only special partner of the U.S. If we deal with some of these cross-border issues in genuinely trilateral terms, I think we're going to make further progress than trying to keep the clock back and say we're different from the Mexicans. We are different; we're very different, and our problems are very different. But this is a North American issue.

Theodore Cohn, Simon Fraser University,
Evidence, Meeting No. 76, May 6, 2002.

We examined the non-economic aspects of NAFTA and our sense of belonging to the continent…. We could even work on this with the Americans. I know this is probably not the best time right now, because the Americans have not made much progress in this direction, but we could convince young Americans, in particular, to broaden their concept of what being an American means and to say: "I'm an American but I am a continental American. There's not only my American culture, but there is also the culture from Canada, from Latin America. All of these things are what make up my identity."

Take note to what extent, in Europe, regardless of what Europe meant, regardless of all the economic, social and other types of mechanisms, just the idea that Europe was cool, that it was being embraced by many people living in Europe, was enough to act as a type of spark plug for the European Union institutions. … It may be cool to be an American, to have this identity, to want to share interests…. This is a small trend that exists and it seems to me that we should create institutions to encourage it and to encourage cooperation on social, environmental and cultural issues…. The dream, therefore, is to have economic integration go hand-in-hand with cultural, social and other types of integration. I believe that by creating institutions we will encourage this type of phenomenon.

Louis Balthazar, Laval University,
Evidence, Meeting No. 60, February 26, 2002.

A customs union, common markets, and common currencies are all ideas derived from the European experience. They indeed have much to be said for them as economic arrangements. It's certainly possible that some of the economic benefits could be reproduced in North America — if one has reference only to abstract economic models. But every step in the process of closer economic integration in Europe has been accompanied by carefully designed steps toward closer political integration….

Even in this political context, it must be said that there is a considerable democratic deficit that has drawn much attention and concern in Europe, much popular restiveness about a non-accountable bureaucracy, and anti-European extremist movements that have gained worrying currency as disruptive minority movements in most European states. These problems are not fatal to the European project, but they are worth noting to draw out the severe political shortcoming of any projected North American economic integration.

Reg Whitaker, University of Victoria,
Evidence, Meeting No. 76, May 6, 2002.

The entire European experience cannot be directly replicated in North America, but we should also be careful not to treat Europe as static. The EU is an ongoing and evolving political project. This is also the case with North America. Why can't the entire experience of the EU be replicated? Because it emerges from a distinct history and it has evolved over many decades. In the case of North America, the economic and military dominance of a single country, the United States, is unique.

Yasmeen Abu-Laban, University of Alberta,
Evidence, Meeting No. 82, May 9, 2002.

What we do in terms of building this trilateral relationship and the community that flows from it does not always have to be initiated by three countries at once. Given the difference in capacity and the relationships between us, we should consider multiple approaches. We should consider, for instance, what measures could best be pursued à deux vitesses, *to use the European phrase.*

I offer the FTA-NAFTA sequencing as perhaps one example of how that is successfully done. Canada and the United States, for their part, can initiate certain steps that are easier to accomplish between them and then invite Mexico's full participation, with Mexico's full knowledge of the procedures and process, and on the basis of agreed, workable, mutually respectful ground rules. We're seeing one example of that sort of process in terms of the border management issue in which Canada and the United States are now engaged. Similarly, Mexico and the United States can best pursue other issues between them. To reach agreements to which Canada could, if it chose, associate itself; for instance, the liberalization of labour markets, which are of critical bilateral interest. These organically based steps, if I can put it that way, to building the trilateral relationship can and should be complemented by other measures the three can take….

So there's a possibility of a North American process. Will the end product be a North American community of the kind we see in Europe? That's very much an open question. Is there an end point where there is a North American community? I deeply believe there is.

George Haynal, Harvard University,
Evidence, Meeting No. 56, February 7, 2002.

5.7 Comparing Canadian, American, and Mexican Views on Trilateralism

Since progress on a truly trilateral basis must engage the United States, it may be best to begin with reference to American views received by the Committee. These were decidedly mixed, to say the least. Frankly, we did not detect much receptiveness on the part of the members of Congress with whom we met. For example, NAFTA critic Democrat John Lafalce of New York poured cold water on the idea of dealing with Mexico on an equal basis to that accorded relations with Canada. While our contacts were admittedly not a broadly representative sample of congressional opinion, traditional bilateralist assumptions of this sort seem common and indicative of widespread attitudinal hurdles on both sides. Some Canadians may envy Mexico's level of representation and lobbying in the United States, as noted earlier in this chapter. But there is still an almost ingrained presumption that the established bilateral relationship is the one that really matters; that a trilateral relationship, in the sense of including Mexico as a full partner, is still under construction. Assigned a lower priority, it can wait.

American officials, policy experts, and nongovernmental spokespersons also observed the lack of a political constituency or process for dealing with North American affairs, though there was some openness to considering options beyond the existing NAFTA minimum. As William McIlhenny, Director for Canada and Mexico at the National Security Council, put it, "institutions and infrastructure have lagged the real dynamics of [cross-border] transactions … in which a whole new North American architecture is slowly taking place." At the same time, he and his colleagues remained very sceptical of "Cartesian" grand institutional designs, preferring an incremental pragmatism to what they saw as the unrealistic expectations raised by proposals coming from senior members of the Mexican government. At another meeting, Frank Vargo, Vice-President of International Economic Affairs for the National Association of Manufacturers, noted that NAFTA has spurred some new trilateral business interactions, but: "Until there is a demand for the rethinking of policy [on a trilateral basis], I don't think it will happen."

In contrast to such reservations, the Committee also heard from several of the leading American proponents of an ambitious trilateralism. In an early panel, Professor Robert Pastor outlined a comprehensive agenda for an encompassing framework of North American institutions and policy cooperation drawn from his seminal study, *Towards a North American Community*. The book was published by the prestigious Institute for International Economics in Washington on the eve of the early September 2001 Fox-Bush summit, and it has a strong resonance with the futuristic North American vision espoused by the Mexican president.[100] The argument has been made that September 11 abruptly cancelled that scenario, prompting a retreat instead into a reinforced double bilateralism on Washington's security-conscious terms. But looked at another way, the aftermath of the terrorist attacks can be seen as highlighting NAFTA's limitations and reinforcing the case for a "NAFTA-plus" institutionalization. Indeed, Pastor suggested to the Committee that the — in his view regrettable — absence of any common North American response or trilateral summit meeting was "a direct function of the lack of institutionalization."[101]

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[100] Pastor, a Latin American expert, has close ties to senior Mexican officials, including Foreign Minister Jorge Castañeda.

Professor Pastor presented the Committee with ten proposals to rectify these and other related NAFTA "omissions", several of which have already been raised in Chapter 4. The overall blueprint can be summarized as follows:[102]

- creating a 15-member "North American Commission" (five appointed from each country) to advise the three leaders on a trilateral agenda for summits to be held annually or perhaps more frequently;
- establishing a "North American parliamentary group";
- creating a "permanent court on trade and investment";
- addressing the "development gap" with Mexico;
- establishing a "North American development fund" to help close that gap;
- Elaborating a "plan on infrastructure and transportation" through the North American Commission;
- using that commission to explore other policy areas that might benefit from a "common continental approach";
- establishing a "North American service on immigration, customs and enforcement";
- moving towards harmonized rules governing cross-border flows of goods, services, and people within a common North American "perimeter", including through negotiation of a customs union;
- promoting the establishment of "North American research centres."

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[101] *Evidence*, Meeting No. 56, February 7, 2002. NAFTA critic Stephen Clarkson makes the point somewhat differently in his new book: "NAFTA itself had nothing to offer by way of institutions or processes that could aid continental decision-making — it convened no trilateral summit or emergency meeting of its Trade Commission. Clarified in crisis, governance in post-catastrophe North American turned out to reinforce, not replace, the double dyad of U.S.-Canada and U.S.-Mexico relations, confirming that an uncorrected bilateralism leaves Washington with enhanced control over its minor partners" (*Uncle Sam and Us*, p. 404-405).

[102] *Evidence*, Meeting No. 56, February 7, 2002; also written statement of February 7 tabled with the Committee, *passim*.

Now Vice-President of International Affairs of American University and Director of its Center for North American Studies, Dr. Pastor also chairs the board of directors of a new trilingual Montreal-based non-profit organization, the "North American Forum on Integration," which is holding its inaugural conference in March 2003.[103]

In the Committee's final panel, a similarly comprehensive approach to North American institution-building was strongly promoted by Professor Stephen Blank, Director of New York's Pace University Center for International Business. He has been closely involved with the work of the Washington-based National Planning Association's North American Committee (NAC) and has advised it on proposals for creating an "Alliance for North America."[104] Blank's testimony expressly called for a concerted effort to embed North American economic integration within a broader socio-political framework. As he put it: "Our task now is to supplement the bottom-up process of integration with deliberate actions. We must build a vision of North America, create an authentic North American voice, launch projects that will enhance this vision, and create new institutions that will support a North American system." Blank also agreed with Pastor that there is no more important goal than widening benefits for Mexico, demonstrating that an increasingly integrated North American market economy "can indeed embrace and offer meaningful opportunities for all North American citizens."[105]

Not surprisingly, prominent Mexicans are also engaged in these recent initiatives, as well as in other fora such as the trilaterally based North American Institute (NAMI), with which Professor Brian Stevenson (who testified in Edmonton) has been associated.[106] Indeed it was in Mexico City, as we have seen earlier in this chapter, that the Committee encountered the most enthusiasm for such expansive trilateralist approaches. Notably, presentations from Andrés Rozental, President of the Mexican Council on Foreign Relations, and from Enrique Berruga, then-Under Secretary of Foreign Affairs, echoed aspects of what might be called the Pastor vision. We have already noted Mexican proposals for creating some kind of commission-like body and/or a "wise persons group" tasked with advising the three North American governments on the next steps in managing North American affairs and pursuing closer regional cooperation in areas of mutual interest. Mr. Berruga also mentioned such ideas as developing a Schengen-type agreement for North America's internal and external borders, which might include instituting a system of "NAFTA visas."

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[103] Under an overarching theme of "Beyond NAFTA: Strengthening North America," the March 27-28 conference in Montreal is to give "special attention" to the idea of "creating a North American Investment Fund." See the Forum's website at: www.fina-nafi.org.

[104] The proposal was discussed at an October 2002 NAC meeting in Ottawa marking the tenth anniversary of the signing of the NAFTA. According to a draft statement, such an alliance "would include regional sectoral, civic, governmental and other groups and individuals that share a North American vision and commitment to continent-wide economic and social development, safe and efficient borders, and cooperation on environmental and other social priorities. The formation of the Alliance would build on the current bottom-up growth and integration process that was catalyzed by the NAFTA treaty". In April 2001, a NAC executive committee statement had called for the leaders of the three NAFTA countries to appoint a "Task Force on North America." (See NAC's website at: www.northamericancommittee.org.)

[105] *Evidence*, Meeting No. 90, June 13, 2002.

[106] Though Canadian-born, Dr. Stevenson grew up in Mexico and the United States, and described himself as in many ways culturally "North American". For information on NAMI see its website at: www.northamericaninstitute.org.

Even more than increasing ease of cross-border access for North American citizens, virtually all Mexicans we heard from stressed their desire to see development and regional disparity issues addressed at a North American level through some means beyond the current bilateral and multilateral financing mechanisms. At the same time, Robert Pastor, while strongly advocating trilateral attention to development issues, was notably critical of the European Union's record on regional funds. As he told the Committee:

> ... I would not want to replicate what they did. They have spent over $400 billion over the last 25 years and wasted most of it. From the analysis I did of what they did, I concluded that there were really only two areas that were very effective, and those were infrastructure and education. That can be managed very neatly by just the World Bank and the IDB [Inter-American Development Bank]. I would not want to set up a new institution, frankly. I think that's the beauty of North America, that we don't bureaucratize. Let's use what we can to keep it lean and focused. I wouldn't move into social funding. I think there's enough that they can get from the Inter-American Development Bank. I would really target just those two areas.[107]

Moreover, apart from exploratory academic discussions in books like Pastor's, practical details of suggested new trilateral institutions — how they would be structured, operated, funded, and so on — remain scarce, and have barely entered into the public domain. Some Canadian as well as Mexican witnesses expressed concerns that the agenda not be driven by elite top-down approaches and only thereafter sold to citizens. Stacey Wilson-Forsberg of FOCAL observes that "elite actors dominate the integration agenda," and that "there is a growing disconnect between these elite actors and the public." Her conclusion: "To avoid a public backlash, greater public awareness and participation in North American dialogue and debates should be encouraged."[108] The Committee agrees. Broad public participation should be part of the process of North American institution-building from the outset, not added as an afterthought.

Another element to be considered in trilateral institution-building is the fact that, while all three countries are federations, there is no place where the provincial and state governments of these federal systems can discuss and promote cooperation in areas under their jurisdiction. In the Canada-U.S. context, the experience of the International Joint Commission has been valuable in, among other things, bringing together representatives of provinces, border states, and local communities on environmental management issues pertaining to the Great Lakes and boundary waters. This is the type of forum for intergovernmental cooperation that might be extended in a trilateral context.

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[107] *Evidence*, Meeting No. 56, February 7, 2002.

[108] *North American Integration: Back to Basics*, p. 9.

There was also shared Mexican and Canadian emphasis, which surfaced in our joint parliamentary meeting on March 13, 2002, that progress not be stymied by a lack of official U.S. interest in trilateralism. In other words, Canada and Mexico should move ahead to enhance their cooperation in all areas of common interest without having to wait for "elusive" trilateral structures and processes to be created. As Professor Antonio Ortíz Mena put it to the Committee in Mexico City: "I believe that significant progress can be made to increase, and share more equally, the benefits of economic integration through a myriad of comparatively minor actions, and that we should not wait to implement them until we have a grand vision or strategy for North American integration. Both processes can go in tandem and may be complementary, but concentrating exclusively on grand visions and actions runs the risk of postponing much needed action in the short term."[109]

It must also be said that Canadian views on the merits of North American trilateralism remain divided, among both supporters and detractors of the existing NAFTA-style institutions. A number of witnesses agreed that institutional solutions should be explored in order to remedy observed deficiencies. Among the proponents of additional formal North American agreements and arrangements, Stéphane Roussel put the case that "it is preferable to manage the situation rather than try to thwart it. About 30 years ago, the diplomat John Holmes ... said that continentalization was a force of nature which requires us to impose the discipline of institutions.... This is still true today."[110]

But whereas Roussel strongly favoured including Mexico from the beginning, Michael Hart, who called for a comprehensive treaty-based evolution of the Canada-U.S. relationship, seemed to dismiss going down a trilateral path. As he told the Committee: "I have been going to various kinds of committees, like the North American Committee, the North American Institute, and the Canada-U.S Relations Committee — which is now the North American Relations Committee — and one of the things that is striking about those committees is the extent to which the Americans are no longer interested.... I think that reality should inform our approach to the kinds of issues we are currently facing."[111] Daniel Schwanen also pointed to a related reality check when he cautioned the Committee that "a move towards integration that would involve either common political institutions or a supranational court sensitive to Canadian or Mexican interests is not likely to work, even — and especially, perhaps — for the United States."[112]

In terms of "disciplining" the forces pushing North American integration — which to date have been mainly defensive and commercial — NAFTA critics were of several minds on prospects for trilateral responses. Those most hostile to further integration tended to reject North American approaches, along with proposals for new structures and processes, as just more of a bad thing. By contrast, Laura Macdonald suggested strengthening NAFTA-related institutions among measures that might redress the "inadequate attention to possible mechanisms that can be taken both nationally and at the level of North America to address the social and economic disparities and the democratic deficit that have accompanied integration."[113]

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[109] "The Future of Integration in North America," notes prepared for the Committee, March 14, 2002.

[110] *Evidence*, Meeting No. 77, May 7, 2002.

[111] *Evidence*, Meeting No. 55, February 5, 2002.

[112] *Evidence*, Meeting No. 64, February 28. 2002.

Others had little confidence in pursuing reforms through the NAFTA framework. Arguing that "NAFTA has no institutions that might give Canada and Mexico the voice they need to offset Washington's increased power over them", Stephen Clarkson saw a NAFTA path as weakening Canada's position in North America. It may have raised Mexico's position, he seemed to suggest, but not Canada's. Rather than seeking to redress that situation through integrationist "big ideas" or trilateralist institutions, Clarkson urged pushing policy-makers "to rebuild the diminished capacities of the Canadian and Mexican states in order to correct the glaring imbalance that trade liberalization created between market forces and the needs of citizens in these countries."[114]

5.8 Is a Democratic "North American Community" a Desirable Goal?

The attractiveness, or not, of moving towards something that might be described as a "North American Community" largely depends on the position one takes in the above debate. How should Canada and the institutions of the Canadian state respond to the recent evolution of economic integration on a continental scale that, since NAFTA, includes Mexico? What are the potential benefits and risks to Canada of continuing, if not intensifying, that integration; of choosing to manage its spillovers into wider policy domains through more formalized processes, institutional structures, regional mechanisms, shared policy frameworks, and the like? Where is this road really leading?

The allusion to "community" suggests comparisons to the earlier development of the European Economic Community, even though the European situation is both very different and has become far more heavily institutionalized than anything conceivable in a North American context. Nonetheless, the negotiation and implementation of the NAFTA with a developing country, and the ancillary debates over various alleged deficiencies — what might be termed the institutional, democratic and developmental "deficits" in the governance of an increasingly integrated North American market economy — have stimulated reflections that a regionally integrated "community" of sorts may also be emerging on this side of the Atlantic. In addition to environmental and labour side effects, it has been argued that the deepening regional economic integration encouraged by NAFTA will sooner or later force a consideration, ultimately on a trilateral basis, of the social, political and other dimensions of North American "community" relations under these conditions.[115]

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[113] *Evidence*, Meeting No. 88, June 6, 2002.

[114] "The Integration Assumption: Putting the Drive for Continental Visions in Context", *Submission* to the Committee, May 7, 2002.

As a result, talk of moving towards a "community" relationship has entered the official discourse, as in the advocacy of Lloyd Axworthy when he was Minister of Foreign Affairs and in the statement by his successor, John Manley, cited at the beginning of this section of the chapter. Shortly after that address by Mr. Manley, the heads of government of Canada, the United States, and Mexico, meeting during the Quebec City Summit of the Americas, issued a "North American Leaders' Statement" on April 22, 2001, which affirmed: "We will work to deepen a sense of community, promote our mutual economic interest, and ensure that NAFTA's benefits extend to all regions and social sectors."

That statement suggested that trilateral partnerships were emerging in many areas (energy and migration were highlighted; transportation, communications, border issues, health, justice, agriculture, employment, education, travel, culture, and joint research were also mentioned). The leaders went on to say: "These patterns of cooperation — by governments, business, and other members of civil society — are building a new sense of community among us.... We encourage broad reflection in our societies on ways to advance the trilateral relationship". In July 2001, U.S. Trade Representative Robert Zoellick spoke of getting out the message that "NAFTA is much more than a trade agreement; it is a form of creating a North American community."[116] And in a December 2001 address, Mexico's ambassador to Canada told an Ottawa conference that: "NAFTA has definitely created a community. That is a reality, and we should not have any doubts in that regard."[117]

But testimony before the Committee revealed that, in fact, there are still many doubts on that score, ranging from whether a NAFTA-based North American relationship is, or can be, truly trilateral (e.g., Michael Hart), to whether it is, or can be, democratically accountable (e.g., Stephen Clarkson). For some, the solution is to make a big leap forward by deliberately extending and institutionalizing North American integration well beyond the realm of trade. In an April 2002 address that drew on international parallels and European inspiration (but did not mention the Pastor vision), Hugh Segal, President of the Institute for Research on Public Policy, went so far as to state:

> The time is right for a Canadian white paper on a North American Community replete with a suggested process for institutional structures for monetary, immigration, environmental, security and economic aspects of the relationship. The time is right for a white paper that discusses what a North American Assembly

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[115] See, for example, Charles Doran, "Building a North American Community," *Current History*, March 1995; John Wirth, "Advancing the North American Community," *American Review of Canadian Studies*, Summer 1996; Rod Dobell, "A Social Charter for a North American Community," *Isuma*, Spring 2000.

[116] Cited in John Foster, "NAFTA at Eight: Cross currents", forthcoming as of December 2002.

[117] Remarks by the Ambassador of Mexico to Canada, Maria Teresa García Segovia de Madero during the North American Linkages Plenary on "The Emergence of a North American Community?", December 6, 2002, p. 2.

> would look like, how its members could be elected within the three founding countries, and what initially advisory, consultative and auditing roles it might play.[118]

The Committee's witnesses, for the most part were considerably more restrained and raised some serious cautionary flags. For example, Professor Yasmeen Abu-Laban stated: "If we take the North American community to mean political elites wholly representing business interests in Canada, the United States, and Mexico by further enhancing trade policies premised on neo-liberalism, this will serve the interests of some more than others. If the forging of a North American community focuses only on institutional intergovernmental mechanisms — however much these may be needed — without considering also popular groups, it could create its own problems."[119]

Reg Whitaker contended that "European anxieties about the democratic deficit would be dwarfed by a Canadian anger about an unaccountable and undemocratic North America."[120] And indeed, concerns about the future of Europe's integration project are deep and fundamental.[121] Comparing integration paths on both continents, it has been argued that the European Union suffers from over-institutionalization that alienates citizens from the bewildering complexity of community decision-making, whereas North America suffers from under-institutionalization that fails to provide citizens with continent-wide political levers for regulating market forces and mitigating power imbalances.[122]

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[118] "New North American Institutions: The Need for Creative Statecraft," Notes for an Address to the Fifth Annual JLT/CTPL Trade Law Conference, Ottawa, April 18, 2002, p. 4. See also Hugh Segal, "Toward a Treaty of North America", *National Post*, November 18, 2002, p. A 14. In a similar vein, Perrin Beatty has argued: "A new North American partnership is inevitable. It will come either by default, as the forces of technology, commerce and common security bind the three countries more closely together, or by design, if politicians, with advice and support from the business community among others, create a compelling vision of a true North American community." ("North American partnership inevitable", *National Post*, September 12, 2002). A poll released in September 2002 indicates conflicted public attitudes in regard to such putative trends. As Anthony Wilson-Smith described its findings: "Even as our economic relationship grows closer with the United States, 59% of Canadians are opposed to North American integration along the lines of the European Union. But at the same time, 54% of poll respondents are open to the idea of a continental parliament with the United States and Mexico that would deal with some specific issues, such as environment." ("United in Ambivalence", editorial, *Maclean's*, September 9, 2002, p. 4).

[119] *Evidence*, Meeting No. 82, May 9, 2002.

[120] *Evidence*, Meeting No. 76, May 6, 2002.

[121] As Larry Siedentop argues in a seminal book: "Democratic legitimacy in Europe is at risk. In many respects European integration is now an accomplished fact. A single market and, for most member states, a common currency have arrived. But what remains uncertain is the political form the European Union will take. That is why a great constitutional debate has become indispensable." (*Democracy in Europe*, Penguin Books, London, 2001, p. 1). He argues forcefully that only such a public debate exploring all of the different options "can begin to create among Europeans the sense that what is happening in Europe today is not merely the result of inexorable market forces or the machinations of elites which have escaped from democratic control." (*Ibid)*

[122] See Stephen Clarkson, "Fearful Asymmetries: The Challenge of Analyzing Continental Systems in a Globalizing World", *Canadian-American Public Policy*, September 1998; Laura Macdonald, "Governance and State-Society Relations", in George Hoberg, ed., *Capacity for Choice: Canada in a New North America* (2002), Chapter 7.

Reflecting on the limited nature of NAFTA institutions discussed in Chapter 4 of this report, we note Whitaker's observation[123] that

> … NAFTA has no supranational political infrastructure, and it was never intended to have such. NAFTA was intended to subordinate national politics and policies to the discipline of the continental market. The vastly disproportionate weight of the U.S. within NAFTA means that where political decisions are being made, they are almost invariably the decisions of the U.S. administration and Congress, the courts, and various administrative and regulatory agencies of the U.S. government, as Canada well understands from the softwood lumber debacle. Even if we were to imagine a political superstructure like that of Europe, neither Canada nor Mexico, even in an alliance, could wield enough weight to seriously influence the hold of U.S. national institutions over North American decision-making.

Advocates of a North American community approach are no doubt aware of the challenges raised by such sceptical realism. This may be one reason why Stephen Blank told the Committee that "support for the next steps in creating a North American community must be deeply rooted in North American civil society, and not only in the creation of three national governments. In fact, a framework for this community already exists in the wide array of organizations that work along our borders and in many sectors of our economy. Many groups share deep interests in cross-border linkages and are prepared to work to build a North American community. What must be done is to link these groups, organizations, and associations with a common vision and purpose."[124]

The Committee accepts the point that voluntary North American associations and alliances are essential if trilateral relations are to be more than just occasional official rhetoric about partnership and cooperation; more than just a top-down intergovernmental affair decided in distant capitals with minimal public engagement. However, such informal "community-building" as Blank recommends only partially sidesteps, and does not resolve, the dilemmas of designing adequate democratic institutions at a North American level. It does not address how governance decisions might be arrived at trilaterally through transparently democratic structures and processes in key policy areas, especially if, as a result of continuing integration, certain older instruments or levers of democratic control are no longer available or effective at the national and/or local levels.

In sum, a democratic "North American community" may well be desirable over the longer term. But its content, form, and feasibility are all still far from being clearly or consensually defined, much less established. Referring to a new book on North American integration published by Washington's Brookings Institution, and based on the proceedings of a December 2001 conference that brought together leading thinkers from Canada and Mexico as well as the United States, David Crane writes that it "shows why the idea of a North American Community, our continent's version of the European Union, would be so difficult."[125]

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[123] *Evidence*, Meeting No. 76, May 6, 2002.

[124] *Evidence*, Meeting No. 90, June 13, 2002. Robert Wolfe argues that working through existing institutions and channels makes more sense than embracing radical, and unrealistic, proposals for institutional change: "If democracy means participating in decisions that affect your life, and we neither want nor can have representatives in Washington, we need to keep thinking of hosts of small institutional settings where people can work together to solve problems." ("See you in Washington? Institutions for North American Integration", Remarks prepared for the BorderLines Conference, Montreal, November 1, 2002, p. 2.)

Certainly, the concept of such a community is not one that can simply be asserted or wished into being. Accordingly, we believe that realizing progress on trilateral relations needs to start at a practical level by governments pursuing and supporting initiatives that could be achievable within a time frame of the next few years. The measures we have in mind would not unduly affect the sovereignty of any of the partners. And they would be undertaken for the demonstrable purpose of benefiting each partner's citizens. If there is to be a common trilateral vision, it will be one based on a mutual recognition of each partner's interests, and on a shared commitment to forms of North American cooperation that serve each other's interests. It is to these final considerations for action that we now turn.

5.9 Towards a Practical Canadian Agenda for Trilateral Political Cooperation

Whatever one thinks of ambitious designs for a North American "architecture" corresponding to deepening levels of integration,[126] there should be no question that, under any reasonable scenario of Canadian national interest, Canadian governments should be seeking the best possible relations with our two North American neighbours. That means we should be constantly seeking better ways to manage these relationships — bilaterally as necessary; trilaterally wherever possible and appropriate — in the long-term best interests of Canadians. And that also means being forward-looking, innovative and proactive; learning from historical experience but not being limited by it; nor held back by self-imposed constraints resulting from a failure of imagination or lack of confidence in ourselves.

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[125] Crane, "Beware of going the European Union route", *The Toronto Star*, October 2, 2002, p. E2. In the foreword to *The Future of North American Integration: Beyond NAFTA* (Robert Litan and Peter Hakim, eds., The Brookings Institution, Washington D.C., 2002), Brookings president Strobe Talbott, a former U.S. deputy secretary of state, acknowledges several of the most intractable impediments: "Integration requires a degree of equality among its participants, otherwise it can become a euphemism for hegemony. Another factor is the deep and enduring strain of scepticism in the American body politic about any infringement on sovereignty" (p. viii).

[126] FOCAL's Stacey Wilson-Forsberg summarizes the doubters' case well when she writes: "No clear and well-articulated vision or plan has emerged in which all three countries would reap significant political, economic or social benefits and, therefore, it is premature to expect Canada, the United States and Mexico to work toward some collective 'North American good'. Consequently, the only direction to pursue remains an incremental one by deepening relations, cooperation, and coordination in those areas where there are clear benefits for each individual country.... In the short to medium term, integration will be issue-driven, with an almost exclusive focus on those issues that the most powerful North American member: the United States, is interested in" (*North American Integration: Back to Basics*, p. 11). In a recent interview, U.S. ambassador to Canada, Paul Cellucci, stated that Canada and the United States should focus on such priorities as building "smart borders" and not engage in discussions about a "more formal economic union like Europe.... I'm not saying the debate should not take place. I'm just saying it should take place at a later date." (Quoted by Angelo Persichilli, "Cellucci says Canada-U.S. relationship 'a role model for the world' ", *The Hill Times*, October 7, 2002, p. 1).

Looking at the state of North American relations in the light of all of the analysis presented in this report, some institutional and democratic development "deficits" are readily apparent. But in the Committee's view, these are solvable, and they need not require hugely complicated or costly initiatives that would almost surely be non-starters with our largest neighbour to the south. We believe that a more substantive trilateral political relationship can be pursued in at least four areas: executive leadership; parliamentary cooperation; agenda setting and institutional innovation; sectoral cooperation and future policy development.

1. Executive Leadership

Surely it is not enough for the three North American leaders to meet only irregularly, and usually — if it happens at all — on the sidelines of some other international gathering (e.g., the Quebec Summit of the Americas in April 2001, the Monterrey Conference on Financing for Development in March 2002, the Los Cabos APEC Summit in October 2002). Although Canada's economic relationship with the European Union is now only a diminishing fraction of that with our NAFTA partners, we have an established formal framework for political cooperation with the EU, including a summit meeting every six months between Canada's Prime Minister and the EU leadership (the President of the European Commission along with the head of government of the state holding the rotating EU presidency). In the G8 context, the leaders meet regularly in annual summits, and numerous between-summit activities involve a growing number of ministers. There is nothing analogous at the heads of government level with respect to North American relations. Why not?

At present, trade ministers meet every so often under the auspices of the NAFTA Free Trade Commission (most recently in Puerto Vallarta in May 2002). Environment and labour ministers also meet periodically to review the work of the other two NAFTA-related commissions. In 2001, energy ministers created a North American Energy Working Group to share information and coordinate certain activities. But these are minimalist structures at best, and North American cooperation should be able to look beyond just the NAFTA status quo and a few other mainly economic sectors. As well, as former minister Axworthy wondered aloud to us, whatever happened to the framework for partnership that was being developed among the three foreign affairs ministers?

In the Committee's view, it would not be a big leap to formalize a more regular pattern of interaction among the key national government decision-makers in North America. Canada should put forward the case for it. We should also develop some practical options for how best to support this more intensive level of interaction, likely beginning with the sort of small-scale rotating secretariat supplied by the host country that now serves the G8 process.

Recommendation 36

Canada should approach the United States and Mexico with a proposal for a trilateral North American cooperation framework under which the heads of government of the three countries would meet at least annually, and preferably every six months, on a prepared, mutually agreed agenda relating to matters of shared North American concern. Under this framework, foreign ministers and other ministers as appropriate should also be encouraged to have periodic trilateral meetings. A small supporting secretariat could be supplied by the host country on a rotating basis. In addition, Canada should investigate further options for enhancing this level of trilateral intergovernmental interaction on a more permanent and sustained basis.

2. Parliamentary Cooperation

Trilateral political cooperation cannot be only an executive-dominated affair among the national governments. There is already quite a lot of other cross-border political interaction, involving not only Canadian federal parliamentarians but provincial and local politicians as well, especially in border regions. Parliamentary groups are more often travelling to meet with counterparts in the United States (usually in Washington), and occasionally to Mexico as well, as the Committee did in the course of this study. But the fact that we were able to meet directly with only a few members of the U.S. Congress, and that our meeting in the Mexican Congress was the first ever of its kind, indicates that we are still at an early stage of the process.

The elected representatives of our three societies have not yet developed habits of regularly meeting with each other on a basis of some continuity to discuss issues of shared North American interest. Currently, parliamentarians from the three countries do meet approximately annually, but on a bilateral basis only.[127] There is a longstanding Canada-U.S. parliamentary group and a more recent Canada-Mexico parliamentary relationship. Yet there has been little or no interaction between the two. Taking these groups' meetings to a trilateral level might seem to be the next logical step. Robert Pastor in his proposals recommended combining these separate bilateral associations into a single "North American Parliamentary Group." Pastor argued that such a trilateral group "might raise the sensitivity of American Congressmen, and it could provide a chance for Mexican and Canadian parliamentarians to think hard about what they share."[128]

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[127] The 43rd Annual Meeting of the Canada-United States Inter-Parliamentary Group met in Newport, Rhode Island, May 16-20, 2002. The 12th Canada-Mexico Inter-Parliamentary Meeting took place in Ottawa and Mont-Tremblant, Québec, May 9-13, 2002.

[128] Written submission to the Committee, Ottawa, February 7, 2002.

Based on our meetings with Congressional counterparts in the United States and Mexico, the Committee believes that probably only the Mexicans are ready to consider that kind of trilateral parliamentary arrangement. But as Dr. Brian Stevenson suggested to us, where there's a will, there may be other ways:

> ... if U.S. legislators cannot be convinced to participate at this time [in a North American parliamentary association or committee], how about bringing the two parliamentary bilateral committees to a one-time session to discuss North America? How about inviting the counterparts of this Standing Committee to share your conclusions regarding this very study and asking what the next steps might be? Another idea could be to establish a North American Congressional and Parliamentary internship program. This would certainly help in bringing together future political leaders and encouraging them to understand the very different political systems in North America.[129]

The Committee welcomes these helpful suggestions. We intend to share the findings of this report with our counterparts on the international affairs committees of the U.S. Congress, and with those of the Mexican Congress in a Spanish translation. In addition, we hope to be able to convene a follow-up meeting in Ottawa with American and Mexican parliamentarians from these committees to discuss jointly with them priorities for the future development of North American relations.

Moreover, in regard to taking into account the diversity among respective political systems, the Committee recognizes that all three countries are also complex federations with their own regional political cultures. Indeed, Pastor has noted that any "serious attempt to coordinate policies on North American issues inevitably collides with the federal structures of the three governments," and in each country "subnational governments have substantial power and autonomy."[130] We therefore see merit in investigating the idea of holding a tri-level as well as trilateral North American parliamentary forum, perhaps every several years, that would include participation by elected representatives at the non-federal as well as federal levels. Imaginative thinking should not stop there. Part of such a forum might be set aside for dialogue with several invited ministers on the specific theme(s) of North American interest chosen for the forum. Another part might aim to engage in dialogue with a range of representatives from civil society organizations working on these issues, recognizing the growing North American ties among a variety of non-state actors, interested stakeholders, and citizens generally.

While ideas of a rather academic or speculative nature have been put forward — for example, to establish standing legislative committees on North American issues in all three countries;[131] or, going much further, Hugh Segal's proposal to create a "North American Assembly not unlike the early European Parliament"[132] — the Committee believes we must be able to walk before we can run. That means steadily building on and broadening the existing channels for inter-parliamentary communication and deliberation while, just as importantly, ensuring that these activities are adequately prepared and supported.

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[129] "Talking to Our Neighbors: Building a North American Community," Written presentation to the Committee, Edmonton, May 9, 2002.

[130] Pastor, *Towards a North American Community* (2001), p. 102.

Recommendation 37

Consideration should be given to the following Canadian initiatives aimed at strengthening parliamentary cooperation on a North American basis:

- **The leadership of Canada's Parliament should, in the first instance, encourage interaction between Canada-U.S. and Canada-Mexico inter-parliamentary activities and encourage their consideration of the possibility of holding some joint meetings. Beyond that, Canadian parliamentary leaders should approach their counterparts in the United States and Mexico about the prospect of eventually establishing an overarching North American parliamentary group drawn from members of the continuing bilateral groups.**
- **Further to the creation of such a trilateral parliamentary association, the Canadian Parliament should propose to its two congressional counterparts that an inaugural North American parliamentary forum be held on the future of North American partnership. Such a forum could include participation by elected non-federal officials as well as incorporate an opportunity for dialogue with both government and civil-society representatives from the three countries. Based on that experience, the trilateral forum could be continued at agreed intervals with the venue rotating among the three countries.**
- **Parliament and the Government should ensure that the development of trilateral inter-parliamentary cooperation is adequately prepared, and supported with the additional resources that will be required for this purpose. Future consideration should also be given to exchanges of parliamentary and congressional staff and to establishing a North American congressional and parliamentary internship program.**

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[131] This suggestion was made by Professor Leslie Pal of Carleton University in a presentation on "Integrating North America: New Political Institutions" given at the December 2001 Brookings Institution conference referred to earlier.

[132] Segal, "New North American Institutions" (April 2002), p. 3.

3. Agenda Setting and Institutional Innovation

Proposals such as those of Robert Pastor for creating a "North American Commission" (NAC) tend to raise instant suspicions and reservations, because they suggest a slippery slope to some supranational bureaucratic entity analogous to the European Union's Commission. In fact, however, Pastor's idea of such a commission, as he explained to us, envisages rather more modestly that its role would be

> … to define an agenda for Summit meetings by the three leaders of North America and to monitor the implementation of decisions and plans. The NAC would have an office that would gather statistics from the three governments, and it would commission studies of different sectors, like transportation, energy, or technology. These studies would ask what could then be done to facilitate economic integration in these sectors on a continental basis, and then, it would submit these analyses with specific options to the Prime Minister and the two Presidents.
>
> Unlike the sprawling, regulatory European Commission, North America's should be lean and advisory — just 15 distinguished individuals, 5 from each of the countries. Their task would be to help the leaders think continentally. To deal with immigration and customs at the border, they could propose "North American passports" for frequent travelers, or "North American Customs and Immigration officers" to patrol the perimeter and reduce the documentation by half.
>
> The Presidents and the Prime Minister would continue to be staffed by their own governments, but the NAC would encourage them to respond to a longer-term vision and a more panoramic view of the opportunities.[133]

This is still a fairly elaborate and perhaps fanciful menu, one that probably bites off more than any of the three governments would be prepared to chew. Whatever its merits in theory or over the longer term, it contemplates far more than either Washington or Ottawa is likely to consider in the foreseeable future. It also begs some key questions. Would the United States ever agree to equal representation in such a trilateral body? Yet on what other basis, could Canada or Mexico accept it? Where would a commission be based and would costs be shared equally? Without such details it is hard to make any realistic assessment.

However, the Committee believes that there may be a way to take some elements from this idea, considered together with the Mexican idea for creating a high-level "wise persons" advisory group of some kind. What we suggest is that the three governments, rather than simply managing business as usual or dismissing ideas such as Robert Pastor's out of hand, could benefit from the in-depth investigation and reflection of a small expert panel. The panel's mandate would be to examine and report back to the governments on the future of the North American partnership overall and the feasibility of trilateral next steps in particular. Such a panel could be very small, perhaps only three persons, with each of the three governments appointing one member in consultation with the others.

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[133] *Submission* to the Committee, February 7, 2002.

We see the mandate of this panel being defined only as broadly as the three governments are able mutually to agree. Moreover, none of its recommendations would be in any way binding. At the same time, we believe the striking of such a panel would provide an opportunity for a rigorous exploration of promising future agendas for North American cooperation, together with possible forms of institutional development and innovation, that would be extremely useful to feed into the more intensive executive and parliamentary trilateral processes that we have recommended. In addition, the expert panel would be encouraged to consult widely within the three societies. Its findings would be released publicly and would hopefully stimulate more informed debate.

The Committee sees this kind of high-level process as a useful prelude to the three governments actually giving serious consideration to provocative, forward-looking ideas, if the expert panel's reports were to find a particular idea worth pursuing further in the interests of each country's citizens. Such ideas might, for example (besides calling for setting up a permanent North American court on trade and investment, as already endorsed in Chapter 4), call for an ongoing North American commission, a North American development fund, or large-scale trilateral schemes for infrastructure or other shared programs. There is nothing to be lost or feared from a study of such options, and much potentially to be learned.

Recommendation 38

The Government of Canada should propose to the governments of the United States and Mexico the setting up of a small advisory high-level expert panel on the future of the trilateral North American partnership. The panel's mandate would have to be mutually agreed by the governments, and it would have to be given sufficient time to consult widely within the three societies before making its findings public. Such a panel could be asked to conduct an in-depth examination of the feasibility and desirability — notably from the standpoint of democratic transparency and accountability — of options for new trilateral institutions, including:

- **a more permanent secretariat or "commission" to support ongoing work through trilateral summits and other intergovernmental political cooperation;**
- **a permanent NAFTA court on trade and investment;**
- **a North American development fund or financing mechanism.**

4. Sectoral Cooperation and Future Policy Development

Finally, and not least, the conversation about where we want North America to go needs to be about more than launching expert studies of political/institutional structures, forms, and processes, crucial as these are to any democratically acceptable public agenda. It must also consider how policies can be developed trilaterally in major sectors of activity that have an increasingly North American dimension, and how such policy initiatives can be carried out to achieve public interest objectives.

George Haynal gave several examples of how cooperative trilateral relations might be applied to the pursuit of such practical and mutually advantageous policy objectives. As he told the Committee:

> We're already engaged in discussions about North American approaches to the management of our energy needs and resources. Cooperation among us can have enormous beneficial effects, not just in supplying new sources of hydrocarbons, but in concerted action to address environmental challenges and stimulating research and development of new sources of energy. The consultative mechanisms that now deal with this issue, informal as they are, can potentially be made less so and more participatory, more in a position to sustain a policy discourse in which broader constituencies and publics are engaged....
>
> Other practical areas for trilateral cooperation abound. Markets are driving toward integrated and intensified North American transport infrastructures. Flows in North America have an increasingly dynamic north-south component. Governments need to ensure that the infrastructure is in place to facilitate that in a way that is congenial with our environmental objectives, of course, and not choke them off. Active discourse on the investments necessary to create these North American arteries would be timely for cooperation.[134]

Education was another area of potential North American cooperation that witnesses mentioned. For example, Brian Stevenson of the University of Alberta suggested to the Committee that "we should develop more programs that foster educational exchanges and we should also expand the North American Mobility Program."[135]

In short, there is no shortage of positive ideas for how Canada might engage North American partners in North American initiatives for the benefit of Canadians. And if we are to take the North American "leaders' statement" of April 2001 at face value, it invited expectations that there would be advances in trilateral relations touching numerous sectors. Without concrete follow-up, however, most of these declaratory intentions are likely to remain unfulfilled, if not forgotten. The Committee believes the North American governments can, if they want, avoid such a disappointing, desultory outcome. How? Our message is simple and direct: by beginning today to set out a substantive, coherent agenda for the expanded trilateral cooperation of tomorrow.

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[134] *Evidence*, Meeting No. 56, February 7, 2002.

[135] "Talking to Our Neighbors," presentation in Edmonton, May 9, 2002.

Recommendation 39

The Government of Canada should propose that the first formal North American leaders summit, on the model we have suggested, undertake to identify key sectors on which there is agreement to pursue enhanced trilateral cooperation as a matter of priority. On that basis, a framework for trilateral cooperation should be developed for approval at a future summit, and progress in its implementation should thereafter be reviewed systematically at each summit meeting. The expert panel that we have recommended be established to advise on the future of North American partnership could also be tasked with providing an assessment of policy sectors that show the greatest potential for strengthened trilateral cooperation.

CONCLUSION: THE COMMITTEE'S VISION FOR ADVANCING CANADA'S OBJECTIVES IN NORTH AMERICA

Canada is a North American nation. That is an inescapable fact of geography reinforced by historic ties of friendship and international alliance. Given that Canada is neighbour to the world's unrivalled superpower, moreover, its international role will be shaped to a large extent by how well it manages evolving relationships with continental partners. Canada's ability to advance its relations with the United States, and increasingly with Mexico as well, will have an important bearing on its overall future success in pursuing a distinctive Canadian foreign policy serving Canadian interests and projecting Canadian values beyond our borders.

Getting North American relations right is therefore a key policy imperative for Canada. In the Committee's view, it requires a proactive, strategic Canadian agenda, not merely reactive or passive responses to external events and ongoing phenomena such as economic integration.

That message underlies this report. At the same time, the Committee argues that Canada retains significant "capacity for choice" in determining the best options for advancing its relationships with North American partners on a basis of sovereign Canadian interests, reciprocal gains, and mutual respect. The challenges of North American integration are indeed many, and some of these have been intensified by the continuing security preoccupations since September 11, 2001. Nevertheless, we believe these challenges also present Canada with opportunities to make strategic choices that will be of long-term benefit to Canadians. We are confident that with energetic leadership by the Government of Canada, taking into account the views and values of Canadians, our growing North American interests can be managed to Canadian advantage.

None of this will come about automatically. It will require a forward-looking vision linked to positive and sustained action. In analyzing Canada's present circumstances and debating the policy options, candid concerns and constructive criticisms are to be welcomed. The focus should not be on negative or wishful scenarios, however, but on what realistically can be done to bolster Canada's influence and to achieve important Canadian objectives within the North American and wider international arenas.

With those goals in mind, the work of building a better North America for tomorrow starts today. The Committee's 39 recommendations should be seen as steps towards achieving the kind of farsighted North American partnerships that will serve the interests and values of all Canadians. Furthermore, we believe these are pragmatic, results-oriented steps in a direction that could also be attractive to policy-makers and citizens in the United States and Mexico.

While our report recommends action to be taken by the Government of Canada, we recognize that a North American agenda needs to reach beyond the national capitals. Within Canada, this means engaging non-federal and non-governmental actors as well as civil society generally. In North American terms, the process will depend on bilateral, and increasingly trilateral, forms of cooperation if we are to move ahead.

The first seven recommendations in Part I of the report underline the strategic priority the Committee is convinced must be accorded to our key North American relationships at a time of great foreign policy challenge, when none of these relationships can be taken for granted.

In defining an approach and giving a strategic North American dimension to Canada's foreign policy, our recommendations in Chapter 1 call on the Government of Canada to:

- explicitly affirm advancing our relations with North American partners as an overall priority and put forward a public strategy to that effect;

- bolster our capabilities, particularly through the Department of Foreign Affairs and International Trade, to implement a North American policy framework and strengthen the coordination of federal efforts by considering establishing a Cabinet Committee on North American Relations;

- encourage additional public consultation on an evolving Canadian strategy for North American relations; and

- take into account the interests of other levels of government, working cooperatively and in consultation with them, in elaborating and implementing that strategy.

The Committee's detailed analysis of the changing features of the North American policy environment in Chapter 2 indicates the powerful integration trends that have emerged within a continental economic space. That chapter also observes the persistence of important societal differences and of complex, shifting public attitudes in all three countries towards such trends. We conclude that deeper understanding and analysis is needed of North American issues if we are to better position Canadian policy to meet the full range of North American challenges. Those encompass the diverse aspects and impacts of North American integration, and while obviously centring largely on Canada-U.S. elements should include also the still underdeveloped Canada-Mexico relationship. Our recommendations therefore call for initiatives to build up Canada's knowledge-based capacities with respect to North American relations, expand our means of foreign policy engagement, and promote the use of information-sharing and communications networks to advance public understanding and assist policy development.

Given that overarching context, the Committee then turns its focus in this report to several major priority areas in relations with North American partners that must be addressed by Canadian policy in both the short and the long term. The ongoing emphasis on the security of North America, coupled with the strong assertion of U.S. global power made by the current U.S. administration, makes that aspect of Canada's continental relationships one of the most crucial.

The recommendations in Chapter 3 envisage Canada contributing to the strengthening of security, intelligence, and defence cooperation in North America in ways that maintain sovereignty and policy flexibility and also enhance parliamentary and public oversight. We see merit as well in increasingly bringing Mexico into trilateral perspectives on these issues. With regard to security and intelligence matters, the Committee calls for the Government to establish a permanent Cabinet Committee on National Security and for the House of Commons to provide for increased parliamentary oversight through the establishment of a Standing Committee on Security and Intelligence. Turning to current Canada-United States border security and defence cooperation initiatives, the Committee calls on the Government to:

- report annually to Parliament on progress in implementing the "smart borders" process issuing from the accord signed between the two countries on December 12, 2001;

- make public any agreements subsequent to the creation of the U.S. Northern Command (NORTHCOM) that relate to Canadian participation in military planning activities co-located at NORAD headquarters, and to report on this subject prior to the next renewal of the NORAD agreement;

- continue to monitor, but reserve taking any position on, the U.S. program to develop missile defences, while opposing the weaponization of space;

- increase political involvement in the bilateral defence relationship, notably through an expanded mandate for the Permanent Joint Board on Defence, along with enhanced ministerial and parliamentary participation in this body.

In addition, the Committee joins many others in calling on the Government to commit to substantially increased and stable multi-year funding for the Department of National Defence, taking into consideration the forthcoming reviews of Canada's foreign and defence policies.

Security will continue to be a dominant theme of cross-border relations, but these open up a much larger agenda of economic partnership issues that are addressed by the Committee's 18 recommendations in Chapter 4. Given the magnitude of the North American economic relationship and its critical importance to Canada's well-being, we believe the Government of Canada should take every opportunity to seek improvements in that relationship for the benefit of Canadians. That should include areas of unfinished

NAFTA business, such as U.S. trade remedies that have proved particularly costly to Canada — the softwood lumber case being an obvious example.

The Committee reiterates its reservations, expressed in earlier chapters, about allowing policy to be driven by short-term pressures to resort to temporary solutions, "linkage" tactics, extensive policy harmonization, or sudden integrationist leaps of faith. These will hardly be a "bargain" if the risks outweigh potential gains. However, we believe there are opportunities in a number of areas to make progress on a more pragmatic, carefully prepared, and considered basis, while at the same time leaving policy development open to broader integration options wherever there are enough possible advantages to warrant a serious examination of Canadian interests.

It is now a decade since NAFTA was signed by the leaders of Canada, the United States, and Mexico on December 17, 1992, and it will soon be a decade since the agreement entered into force on January 1, 1994. Clearly, we should be looking at how NAFTA itself can be made better. We should also be open to exploring mechanisms beyond the present framework, with the aim of securing more predictable market access, shared prosperity, and sustainable economic development across North America.

With respect to better resolution of trade disputes, the Committee argues that Canada should work with NAFTA partners on reforms to NAFTA's rules-based institutional mechanisms. Specifically, we call on the Government to:

- seek improvements in the general dispute settlement mechanisms of NAFTA's Chapter 20, including working towards increased transparency and openness in NAFTA dispute settlement processes;

- institute a formal process for repayment of all punitive duties when that is indicated by a final NAFTA panel ruling, as could apply in the softwood lumber case;

- vigorously pursue in regard to the softwood lumber dispute all legal avenues of redress under NAFTA's Chapter 19, and at the WTO;

- pursue consultations with the United States and Mexico under NAFTA with the goal of developing common North American rules on anti-dumping and countervail, while taking into account negotiations currently underway within the WTO.

This report also reviews the considerable problems that have been experienced under the investor-state dispute resolution procedure of NAFTA's Chapter 11. We see an opportunity for Canada to pursue with the United States and Mexico further reforms to the operation of the investor-state provisions of Chapter 11.

Another area deserving attention is the weakness of NAFTA's still minimal institutions, despite some achievements to their credit. The Committee recommends that Canada work to fortify and ensure adequate funding for both the North American Commission for Environmental Cooperation and the North American Commission on Labour Cooperation. More boldly, we believe Canada should explore with its NAFTA partners the feasibility of moving towards a North American court on trade and investment that could consolidate all of the NAFTA dispute settlement processes within a single trinational body.

Returning to the question of cross-border facilitation within the NAFTA area in light of new security demands, the Committee recommends improvements in critical infrastructure at key Canada-U.S. border points; quantitative and qualitative improvements in Canadian customs operations, along with reforms to modernize customs regulations; and a review of longer-term border options including an evaluation of the European Union's experience and the implications of a continental security perimeter.

In regard to managing North American economic relationships, it is critical that the Canadian economy be in the strongest possible position to respond to the dynamic circumstances of an increasingly integrated economic space. The Committee therefore emphasizes that the Government should address domestic competitive factors with a view to reversing the Canada-U.S. productivity gap.

Moving to what might be termed a "NAFTA-plus" agenda, the Committee argues that much could be done to enhance the efficiency and other benefits of the North American economic space through mutual-recognition approaches that would avoid the drawbacks of regulatory harmonization. Beyond that, the Committee favours a two-track approach that would see Canada continue to work with its NAFTA partners to tackle identified barriers to efficient cross-border commerce on a case-by-case basis. Concurrently, while taking no position prejudging the merits of a customs union of some kind, the Committee believes it would be useful for the Government to conduct a thorough review of the potential advantages and disadvantages of the concept in the North American context. Certain highly integrated sectors such as the North American steel industry could be among those included in an evaluation of possible prototypes for broader arrangements that might advance the mutual interests of the three countries.

As for the debate over a potential monetary integration, the Committee notes that there was little support among witnesses for the idea of a common currency and that key preconditions for such integration are not currently met within the existing North American context. We believe Canada should therefore maintain a flexible exchange-rate system for the Canadian dollar. However, we agree that the Government should continue to review its long-term currency options and that it should also assess the extent of dollarization and its associated impacts within the Canadian economy.

The recommendations in the report's final chapter look at how channels and instruments of Canadian diplomacy can be brought to bear as effectively as possible on several simultaneous challenges: managing our dominant bilateral relationship with the United States; further developing our growing relations with Mexico; and fostering incipient trilateral relationships that will determine the future ambit and success of partnership undertaken at a truly North American level.

With regard to Canada-U.S. relations, the Committee calls for increasing Canada's diplomatic resources both in Washington and at the consular level in key U.S. regions. We believe that increased resources for producing coordinated, targeted information and undertaking advocacy efforts, in consultation with the Canadian private sector, could also pay off in helping to get Canada's message across to U.S. policy-makers, opinion leaders, and publics. The proposed Cabinet Committee on North American relations could consider future areas for enhanced Canada-U.S. cooperation, building on the achievements to date in security matters and "smart borders" through the working relationship that has been developed between Canada's Deputy Prime Minister and the U.S. Government's top official for homeland security, who is proposed to become a Cabinet-level Secretary of a new Department of Homeland Security.

There is even more work to be done in strengthening Canada-Mexico relations, given that only since NAFTA have the two countries (respectively, the world's eighth and ninth largest economies) really begun to know each other better. The predominance of each country's bilateral relationship with the United States still tends to overshadow such efforts. The Committee calls on the Government to invest in improving Canadians' knowledge of Mexico and Mexicans' knowledge of Canada; to consider strategic areas for collaboration with Mexico on North American issues; and to expand programs of bilateral cooperation with Mexico, including those addressing pressing development needs, in consultation with Mexican partners and civil society. We believe Canadian support for, and ministerial attention to, more inter-parliamentary deliberations would also promote the development of Canada-Mexico ties.

Beyond these more or less established bilateral paths, it is clear that the advancement of North American relations as a whole will be held back without an increase in trilateral diplomacy. In this report, the Committee also makes clear that a positive evolution of North America, as a more closely integrated regional entity, will necessarily be very different, and more institutionally modest, than the experience that characterizes a still-expanding European Union. For many reasons — notably power asymmetries, identity, sovereignty, and democracy concerns — we do not envisage a grandly ambitious North American "community", much less "union" in the European sense, as being either politically feasible or desirable in the foreseeable future.

Nonetheless, the Committee believes that creative ideas should be explored for more regular and intensive trilateral relationships among the three countries, and that Canada should lead in proposing specific steps that could be taken in the next few years to build up that trilateral dimension of the North American partnership. To this end, we recommend:

- approaching the United States and Mexico to establish a more formal intergovernmental North American cooperation framework that would support meetings at the heads-of-government level at least annually and also more regular meetings of foreign ministers and other ministers dealing with matters of common North American concern;

- considering a number of initiatives to further parliamentary interaction on a trilateral basis and, in conjunction, occasional forums for the public discussion of North American issues that would include, besides parliamentarians, a broadly representative range of participants from the three countries;

- supporting the creation of a small, high-level expert panel on a trilateral basis to advise the governments of Canada, the United States, and Mexico on the merits of deeper forms of trilateral partnership, notably in regard to having a permanent North American secretariat to support trilateral political cooperation, setting up a permanent North American court on trade and investment, and establishing a North American development finance mechanism to address Mexico's socio-economic disparities; and

- promoting, on the basis of the formal trilateral political cooperation framework recommended above, an inaugural summit of North American leaders that would identify priority sectors for pursuing enhanced trilateral cooperation, with progress on such a mutually agreed North American agenda to be reviewed at each subsequent summit meeting.

The Committee certainly recognizes that some of our recommendations are far-reaching and oriented more to the long term. Ultimate success will also depend on engaging political interest in the United States, a task that is never easy or assured. However, we believe that advancing Canadian objectives in North America is in our long-term national interest, and that doing so requires political imagination, energy, and the kind of larger vision of North American partnership that we have tried to put forward in this report.

Shaping the kind of North America Canadians want is an unfinished agenda that goes well beyond addressing the relatively few key irritants that are bound to arise in such a vast, complex set of inter-relationships. Even among the many aspects of our relations with the United States and Mexico that are working quite well, improvements can be sought. In the North American integration context, other elements of partnership could be substantially strengthened, and further dimensions, especially of a trilateral nature, considered.

In the Committee's view, Canada should proactively embrace North American challenges, not shrink before them. That is why we are urging leadership on a comprehensive and coherent strategy for North American relations, one that builds on Canadian values, looks to Canadians' best interests, and seeks to advance a confident Canadian agenda for the future.

LIST OF RECOMMENDATIONS

CHAPTER 1: TOWARDS A STRATEGIC NORTH AMERICAN DIMENSION OF CANADIAN FOREIGN POLICY

Recommendation 1

The Government of Canada should explicitly make Canada's relations with its North American partners an overall policy priority. In that regard, and particularly in terms of defining the North American dimension of Canadian foreign policy, the Government should elaborate a coherent public strategy for advancing Canadian interests and values in the context of North America, including Mexico, beginning with its comprehensive response to the recommendations in this report. (p. 31)

Recommendation 2

The Government should address Canada's diminished international policy capabilities in the next and future budgets, ensuring that sufficient resources are provided to allow the Department of Foreign Affairs and International Trade to provide leadership in developing and implementing a strong, credible, strategic framework for Canada's relations with its North American partners. (p. 33)

Recommendation 3

The Government should also ensure that there is coherence and coordination among all federal activities in which significant North American relationships are involved. To that end, consideration could be given to creating a special Cabinet Committee on North American Relations. Such a high-level committee could be co-chaired by the Deputy Prime Minister and the Minister of Foreign Affairs and could include other ministers with important responsibilities that relate to North American issues. (p. 33)

Recommendation 4

In order to encourage further public engagement focused on Canadian objectives in North America, the Government should consider convening national and/or regional roundtables on North American relations following the public release of an initial policy statement. Such a consensus-building process should be carried on as warranted by evolving circumstances. (p. 34)

Recommendation 5

Given the increasing involvement of non-federal actors in many aspects of North American relations, the Government should consider how best to take into account the interests of other levels of government — on a cooperative basis and through an established process of consultation with provinces, territories, and municipalities — within an evolving Canadian strategic policy framework for advancing these relations. (p. 35)

CHAPTER 2: UNDERSTANDING A CHANGING NORTH AMERICA

Recommendation 6

In order to better position Canada and Canadians to meet the challenges of a rapidly changing North American policy environment that includes Mexico, the Government should:

- **foster increased understanding through knowledge generation and dissemination of North American research results to the public;**
- **work to increase support for North American studies and education in cooperation with provincial and territorial governments, expand public information programs, and enhance its own policy research initiatives;**
- **investigate the idea of creating a knowledge-oriented entity or centre of excellence devoted to analyzing all aspects and impacts of North American integration, and invite the cooperation of U.S. and Mexican partners in such an endeavour;**
- **explore other means of promoting networking and dialogue on North American issues, seeking to involve the broadest possible social participation. (p. 51-52)**

Recommendation 7

The Department of Foreign Affairs and International Trade in particular should look at ways to deepen knowledge and understanding of Canada's North American relationships, particularly with the United States and including those with Mexico. DFAIT should also promote public engagement in better defining and promoting Canadian foreign policy objectives in North America. For example, the Canadian Centre for Foreign Policy Development could be tasked with building links in this regard among foreign service professionals, parliamentarians, academics, other researchers, interest groups, and civil society

organizations. Information technologies could also be used to improve interactive connections with the public at large. (p. 52)

CHAPTER 3: THE FUTURE OF SECURITY AND DEFENCE COOPERATION IN NORTH AMERICA

Recommendation 8

The Government of Canada should increase its bilateral security cooperation with Mexico. The Government should also examine means of beginning a trilateral dialogue with the United States and Mexico to explore common perspectives on security issues in North America. (p. 86)

Recommendation 9

The Government should produce an annual report to Parliament reviewing in detail the status of the "Smart Borders" process. The ministers responsible for the implementation of border security measures should also appear before the relevant committees of both houses of Parliament on the substance of that report. (p. 96)

Recommendation 10

While acknowledging potential legal restrictions, the Committee recommends that the House of Commons establish a Standing Committee on Security and Intelligence, with appropriate secure premises, dedicated and cleared staff and other requirements. In addition, the ad hoc Cabinet Committee on Public Security and Anti-Terrorism should be replaced by a permanent Cabinet Committee on National Security. Further, the Government should institute a review of Canada's intelligence services and report the findings to Parliament. Finally, the Government should also facilitate increased parliamentary oversight in this area by the new Standing Committee on Security and Intelligence recommended above. (p. 98)

Recommendation 11

The Government should make public all relevant agreements under which Canadian military planners will participate in the newly proposed planning and monitoring group to be co-located at NORAD headquarters. In order to allow for a full public debate over the group's usefulness and broader implications, the Government should also prepare and table a report on the work of this new group before the next renewal of the NORAD agreement. (p. 106)

Recommendation 12

The Government should not make a decision about missile defence systems being developed by the United States, as the technology has not been proven and details of deployment are not known. However, the Government should continue to monitor development of this program with the Government of the United States and continue to oppose the weaponization of outer space. (p. 112)

Recommendation 13

Taking into consideration the forthcoming reviews of Canada's foreign and defence policy, and recognizing the important contribution of the Canadian Forces in achieving Canada's foreign policy goals, the Government should commit itself to substantially increased and stable multi-year funding for the Department of National Defence. (p. 115)

Recommendation 14

In view of the changed security environment in North America since September 11, 2001, the governments of Canada and the United States should expand the mandate of the Permanent Joint Board on Defence to include relevant security issues and officials. The Government of Canada should also facilitate interactions between the Board and Canadian Members of Parliament, and encourage the Government of the United States to do likewise.

More generally, the Canadian Ministers of Foreign Affairs and National Defence along with the U.S. Secretaries of State and Defense — and other relevant Cabinet members as may be necessary — should meet at least once a year, alternating between Canada and the United States, to discuss mutual defence and security issues. These meetings should be coordinated with the Permanent Joint Board on Defence. (p. 116)

CHAPTER 4: KEY ISSUES IN MANAGING AND ADVANCING THE NORTH AMERICAN ECONOMIC RELATIONSHIP

Recommendation 15

The Government of Canada should resist the temptation to seek short-term gains through reactive, ad hoc solutions to trade problems with NAFTA partners. Wherever possible, trade disputes should be addressed through rules-based, institutional mechanisms, and the Government should use its best efforts to improve and expand such mechanisms on a continental basis. (p. 132-133)

Recommendation 16

The Government of Canada should work with Mexico to encourage the United States to agree to improve the rules-based foundation of the general dispute settlement mechanism in Chapter 20 of NAFTA. The final reports of arbitral panels should be made automatically legally binding on the parties to the dispute. In the event that such a change is not possible, the Government should strive to make maximum use of the multilateral dispute settlement mechanisms under the WTO for resolving disputes that arise under Chapter 20 of NAFTA.

In addition, the Government should work towards increasing the transparency of the dispute settlement process by releasing all documents relevant to a proceeding, without causing prejudice to companies. The Government should also work toward increasing the openness of the process by enlarging participation beyond the NAFTA states to interested third parties, such as provinces, non-governmental organizations and others. (p. 136)

Recommendation 17

When a NAFTA binational panel finds that the final determination by a government agency to impose anti-dumping or countervailing duties was in error, all duties should be repaid by the domestic authority to the foreign exporter. The Government of Canada should therefore propose to its NAFTA partners a formal system for the repayment of all duties, retroactive to the date set by any preliminary and/or final determination imposing duties. (p. 141)

Recommendation 18

The Committee supports the ongoing use of the Chapter 19 binational panel review procedure — and, where appropriate, the WTO dispute settlement system — and recommends that the Government of Canada continue to pursue *all* possible legal avenues for the efficient resolution of current trade disputes, especially the softwood lumber dispute. (p. 144)

Recommendation 19

Taking into account similar negotiations currently underway in the WTO forum, the Government of Canada should vigorously pursue consultations with Mexico and the United States under Article 1907 of NAFTA in order to actively engage them in the development of a common North American anti-dumping and countervail regime. (p. 144)

Recommendation 20

The Government of Canada should generally refrain from linking different trade sectors as a strategy for retaliation or dispute resolution. Canada should focus on addressing each dispute on its own terms, and within a rules-based framework. (p. 145)

Recommendation 21

In light of the United States' recent policy change with respect to aspects of Chapter 11 of NAFTA, the Government of Canada should review as soon as possible with Mexico and the United States elements of Chapter 11 that have proved problematic, in particular the investor-state provisions. (p. 153)

Recommendation 22

The Government of Canada should discuss with its Mexican and American counterparts ways to ensure adequate funding and enforcement powers for the North American Commission for Environmental Cooperation created under the North American Agreement on Environmental Cooperation. (p. 155)

Recommendation 23

The Government of Canada should initiate discussions with the governments of Mexico and the United States on ways to improve the enforcement of labour laws and standards under the North American Agreement on Labour Cooperation (NAALC). Ensuring adequate funding for the NAALC Secretariat should also be discussed. (p. 157-158)

Recommendation 24

The Government of Canada should initiate discussions with Mexico and the United States on the feasibility of developing a permanent North American court on trade and investment that would consolidate the existing NAFTA dispute settlement processes under a single trinational juridical body. (p. 162)

Recommendation 25

Given the critical need for new infrastructure at key Canada-U.S. border locations, the Government of Canada should accelerate its efforts to construct such infrastructure at existing border points and more actively encourage its American counterpart to do the same. (p. 170)

Recommendation 26

The Government should ensure that the number of customs and immigration officers at the border matches current requirements, given the new security demands imposed on these officials. Training and the equipment available to border officers should be enhanced. (p. 170)

Recommendation 27

The Government should thoroughly review the set of customs regulations currently administered by customs officials within the Canadian Customs and Revenue Agency, with a view to their modernization. Border officials should be fully versed in any resulting changes so that they can deal more effectively with today's border realities. (p. 171)

Recommendation 28

The Government should undertake a thorough review of long-term options for the Canada-U.S. border and present its findings to the public. This assessment should include an evaluation of the European Union's experience in easing the movement of goods and individuals between most of its member countries and an analysis of the implications of establishing a security perimeter around North America. (p. 171-172)

Recommendation 29

To ensure that the Canadian economy remains competitive within an increasingly integrated North American economy, and to boost living standards in Canada, the Government should urgently implement additional measures to help reverse the Canada-U.S. productivity gap. Emphasis should be placed on providing tax and regulatory relief, working together with the provinces to eliminate barriers to inter-provincial trade and generating investments in Canada's labour force. (p. 174)

Recommendation 30

When evaluating measures to ease the burden that different regulatory systems can impose on companies undertaking business in North America and to avoid the drawbacks of regulatory harmonization, the Government of Canada, in consultation with the provinces, should seriously consider entering into agreements with its NAFTA partners to implement mutual recognition schemes for existing regulations. Under such arrangements, countries would recognize each other's

regulatory standards as appropriate, thereby facilitating cross-border commerce. (p. 191)

Recommendation 31

The Government of Canada should consider undertaking a two-track approach to North American economic integration. Identified barriers to more efficient conduct of cross-border business should be removed in an incremental manner in conjunction with Canada's NAFTA partners. While the Committee has taken no position on the merits of a North American customs union, we believe it would be useful for the Government concurrently to initiate a detailed review of the advantages and disadvantages of the concept in the North American context. The review could include an assessment of the use of the integrated North American steel industry, among others, as a prototype for a broader customs union of some kind. (p. 194)

Recommendation 32

Given that certain vital preconditions to North American monetary integration (e.g., similarity in the economic structures of NAFTA participants, existence of labour mobility across borders, availability of a fiscal transfer system) are not presently met, the Government of Canada should oppose any current calls to abandon its existing flexible exchange-rate system. The Government should continue to carefully review its long-term currency options and, in so doing, assess the extent to which the Canadian economy is already dollarized and any associated impacts. (p. 209)

CHAPTER 5: A CANADIAN AGENDA FOR ENHANCING BILATERAL AND TRILATERAL RELATIONS IN NORTH AMERICA

Recommendation 33

The Government of Canada should increase both the number of DFAIT personnel resident in Washington and the number of Canadian diplomatic consulates in strategic locations elsewhere in the United States. It should also again increase the advocacy funds available to DFAIT, and consult with industry groups and others in the design of targeted and coordinated information campaigns. (p. 230-231)

Recommendation 34

The Government of Canada, using the new Cabinet Committee on North American Relations we have recommended, should identify specific areas of interest for enhanced cooperation. Specifically, the Government should encourage the United States to designate a high-

level political representative and should pursue the model of cooperation that has been developed in the security field by the current Canadian Deputy Prime Minister and the current U.S. Homeland Security Director, proposed to become Secretary of the new Department of Homeland Security. (p. 232)

Recommendation 35

The Government of Canada should work to develop closer relations with Mexico, in particular through:

- **increasing support for initiatives to deepen Canadians' and Mexicans' knowledge of each other, especially in policy-related areas that are becoming more important in North American terms;**
- **identifying on an ongoing basis specific aspects of North American relations that warrant the development of more strategic collaboration with Mexico in the Canadian interest, and exploring bilateral Canada-Mexico collaboration that may include joint rather than separate dealings with the United States;**
- **expanding Canada's program of bilateral cooperation with Mexico, and investigating the feasibility of increasing Canadian support for Mexico's development efforts, targeting to areas of greatest need and including consultations with a broad range of non-governmental stakeholders;**
- **involving parliamentarians as much as possible in the deepening of the Canada-Mexico relationship and supporting more inter-parliamentary deliberations on major bilateral and North American policy issues and taking the findings into account. Consideration could also be given to the participation of Canadian ministers in inter-parliamentary forums where that is deemed appropriate by the parliamentary representatives to such forums. (p. 248)**

Recommendation 36

Canada should approach the United States and Mexico with a proposal for a trilateral North American cooperation framework under which the heads of government of the three countries would meet at least annually, and preferably every six months, on a prepared, mutually agreed agenda relating to matters of shared North American concern. Under this framework, foreign ministers and other ministers as appropriate should also be encouraged to have periodic trilateral meetings. A small supporting secretariat could be supplied by the host country on a rotating basis. In addition, Canada should investigate further options for enhancing this level of trilateral

intergovernmental interaction on a more permanent and sustained basis. (p. 265)

Recommendation 37

Consideration should be given to the following Canadian initiatives aimed at strengthening parliamentary cooperation on a North American basis:

- **The leadership of Canada's Parliament should, in the first instance, encourage interaction between Canada-U.S. and Canada-Mexico inter-parliamentary activities and encourage their consideration of the possibility of holding some joint meetings. Beyond that, Canadian parliamentary leaders should approach their counterparts in the United States and Mexico about the prospect of eventually establishing an overarching North American parliamentary group drawn from members of the continuing bilateral groups.**
- **Further to the creation of such a trilateral parliamentary association, the Canadian Parliament should propose to its two congressional counterparts that an inaugural North American parliamentary forum be held on the future of North American partnership. Such a forum could include participation by elected non-federal officials as well as incorporate an opportunity for dialogue with both government and civil-society representatives from the three countries. Based on that experience, the trilateral forum could be continued at agreed intervals with the venue rotating among the three countries.**
- **Parliament and the Government should ensure that the development of trilateral inter-parliamentary cooperation is adequately prepared, and supported with the additional resources that will be required for this purpose. Future consideration should also be given to exchanges of parliamentary and congressional staff and to establishing a North American congressional and parliamentary internship program. (p. 267)**

Recommendation 38

The Government of Canada should propose to the governments of the United States and Mexico the setting up of a small advisory high-level expert panel on the future of the trilateral North American partnership. The panel's mandate would have to be mutually agreed by the governments, and it would have to be given sufficient time to consult widely within the three societies before making its findings public. Such a panel could be asked to conduct an in-depth examination of

the feasibility and desirability — notably from the standpoint of democratic transparency and accountability — of options for new trilateral institutions, including:

- a more permanent secretariat or "commission" to support ongoing work through trilateral summits and other intergovernmental political cooperation;
- a permanent NAFTA court on trade and investment;
- a North American development fund or financing mechanism. (p. 269)

Recommendation 39

The Government of Canada should propose that the first formal North American leaders summit, on the model we have suggested, undertake to identify key sectors on which there is agreement to pursue enhanced trilateral cooperation as a matter of priority. On that basis, a framework for trilateral cooperation should be developed for approval at a future summit, and progress in its implementation should thereafter be reviewed systematically at each summit meeting. The expert panel that we have recommended be established to advise on the future of North American partnership could also be tasked with providing an assessment of policy sectors that show the greatest potential for strengthened trilateral cooperation. (p. 271)

APPENDIX A
LIST OF WITNESSES

Associations and Individuals	Date	Meeting
Department of Foreign Affairs and International Trade	04/10/2001	30
Hon. John Manley, Minister of Foreign Affairs		
Gaëtan Lavertu, Deputy Minister		
James R. Wright, Assistant Deputy Minister, Global and Security Policy		
Canada Customs and Revenue Agency	20/11/2001	42
Denis Lefebvre, Assistant Commissioner		
Department of Citizenship and Immigration		
Joan Atkinson, Assistant Deputy Minister, Policy and Program Development		
Department of Foreign Affairs and International Trade		
Jon Allen, Director General, North America Bureau		
Department of Industry		
Andreï Sulzenko, Senior Assistant Deputy Minister, Industry and Science Policy		
Department of the Solicitor General		
Paul E. Kennedy, Senior Assistant Deputy Solicitor General		
Department of Transport		
Christine Nymark, Assistant Deputy Minister, Policy		
Department of Foreign Affairs and International Trade		43
James R. Wright, Assistant Deputy Minister, Global and Security Policy		
Department of National Defence		
Major-General H. Cameron Ross, Director General, International Security Policy		
Canadian Institute for International Affairs	22/11/2001	44
Hon. Barbara McDougall, President		
Carleton University		
Andrew Cohen, Professor, School of Journalism and Communication		
Laval University		
Albert Legault, Professor of Political Science		

Associations and Individuals	Date	Meeting
North-South Institute	22/11/2001	44
Jean Daudelin, Senior Researcher, Conflict Prevention		
Royal Military College of Canada		
Houchang Hassan-Yari, Professor of Political Science		
University of Toronto		
John Kirton, Professor of Political Science		
Carleton University	27/11/2001	45
Maureen Molot, Director, Norman Paterson School of International Affairs		
Center for Strategic and International Studies (Washington, D.C.)		
Christopher Sands, Director, Canada Project		
Dalhousie University		
Denis Stairs, Professor of Political Science		
University of Waterloo		
Andrew Cooper, Professor of Political Science		
Business Council on National Issues		46
Sam Boutziouvis, Vice-President, International Trade and Global Economics		
Thomas d'Aquino, President and Chief Executive Officer		
Conference Board of Canada		
Gilles Rhéaume, Vice-President, Policy, Business and Society		
Andrew Shea, Research Associate		
Council on Foreign Relations (New York)		
Stephen Flynn, Fellow, National Security Studies		
Canadian Institute of Strategic Studies	29/11/2001	47
David Rudd, Executive Director		
Carleton University		
Martin Rudner, President, Canadian Association for Security and Intelligence Studies		
Johns Hopkins University (Washington, D.C.)		
Charles F. Doran, Professor of International Relations, Director of the Center for Canadian Studies		
University of Calgary		
Stephen Randall, Dean, Faculty of Social Sciences		
University of Toronto		
Wesley Wark, Professor, International Relations Programme		

Associations and Individuals	Date	Meeting
Canadian Manufacturers and Exporters	05/02/2002	55
Jayson Myers, Chief Economist		
Carleton University		
Michael Hart, Professor of Trade Policy		
Public Policy Forum		
David R. Zussman, President		
Emory University (Atlanta)	07/02/2002	56
Robert A. Pastor, Professor of International Relations		
Harvard University (Boston)		
George Haynal, Fellow, Weatherhead Center for International Affairs		
University of Missouri (St. Louis)		
Kenneth P. Thomas, Professor of Political Science		
Department of Foreign Affairs and International Trade	19/02/2002	57
Jon Allen, Director General, North America Bureau		
Marc Lortie, Assistant Deputy Minister (Americas)		
Michael Welsh, Acting Director General, Latin America and Caribbean Bureau		

ST. JOHN'S, NEWFOUNDLAND

Associations and Individuals	Date	Meeting
Canadian Manufacturers and Exporters — Newfoundland and Labrador	25/02/2002	58
Sean McCarthy, Vice-President		
Memorial University of Newfoundland Students' Union		
Chris Vatcher, Vice-President		
New Democratic Party of Newfoundland and Labrador		
Randy Collins, MHA		
Jack Harris, MHA, Leader		
Newfoundland and Labrador Federation of Labour		
Elaine Price, President		
Nancy Shortall, Canadian Labour Congress Representative		

Associations and Individuals	Date	Meeting
HALIFAX, NOVA SCOTIA		
Atlantic Institute of Market Studies	26/02/2002	59
Brian Crowley, President		
Michael MacDonald, Senior Fellow		
Perry Newman, Former Advisor on International Trade to the Governor of Maine		
Dalhousie University		
Michael Bradfield, Professor of Economics		
Teresa L. Cyrus, Professor of Economics, Centre for Foreign Policy Studies		
Maritime Affairs		
Peter Haydon, Editor		
Mount Saint Vincent University		
Reginald Stuart, Professor of History and Politics		
QUEBEC CITY, QUEBEC		
"Institut québécois des hautes études internationales"		60
Louis Bélanger, Director of the Institute and Professor of Political Science, Laval University		
Ivan Bernier, Regular member of the Institute and Associate Professor of Law, Laval University		
Gordon Mace, Director of the Inter-American Studies and Professor of Political Science, Laval University		
Richard Ouellet, Regular Member of the Institute and Professor of Law, Laval University		
Laval University		
Louis Balthazar, Professor Emeritus of Political Science		
Benoît Carmichael, Professor of Economics		
HALIFAX, NOVA SCOTIA		
Atlantic Provinces Chamber of Commerce	27/02/2002	61
Sean Cooper, Regional Executive Director		
Atlantic Provinces Economic Council		
Elizabeth Beale, President and Chief Executive Officer		
Dalhousie University		
Frank Harvey, Director and Professor of Political Science, Centre for Foreign Policy Studies		

Associations and Individuals	Date	Meeting
Ecology Action Centre	27/02/2002	61
Mark Butler, Marine Coordinator		
Enviro-Clare		
Jan Slakov, Chair		
MONTREAL, QUEBEC		
"École nationale d'administration publique"		62
Nelson Michaud, Professor		
"Fédération des travailleurs et travailleuses du Québec"		
Henri Massé, President		
Dominique Savoie, Director, Research Branch		
Jérôme Turcq, Vice-President and Regional Executive Vice-President of the Public Service Alliance of Canada, Quebec Region		
Émile Vallée, Policy Adviser		
North American Commission for Environmental Cooperation		
Janine Ferretti, Executive Director		
Raging Grannies of Montreal		
Joan Hadrill		
SAINT JOHN, NEW BRUNSWICK		
Canadian Labour Congress	28/02/2002	63
Dee Dee Daigle, Political Action Representative		
New Brunswick Federation of Labour		
Blair Doucet, President		
Bill Farren, Member of the Executive Council		
New Democratic Party of New Brunswick		
Elizabeth Weir, MLA, Leader		
Saint John Board of Trade		
John Furey, Second Vice-President		
Gerry O'Brien, Immediate Past President		
University of New Brunswick (Saint John)		
Rod Hill, Professor of Economics		

Associations and Individuals	Date	Meeting
MONTREAL, QUEBEC		
Confederation of National Trade Unions	28/02/2002	64
Vincent Dagenais, Assistant to the Executive Committee		
Marc Laviolette, President		
Institute for Research on Public Policy		
Daniel Schwanen, Senior Economist		
OTTAWA, ONTARIO		
Canadian Institute of International Affairs	02/05/2002	74
Robert Edmonds, Past Chair, National Capital Branch		
Harvard University (Boston)		
Joseph Nye, Dean, Kennedy School of Government		
WINNIPEG, MANITOBA		
Canadian Wheat Board	06/05/2002	75
Larry Hill, Director		
Victor Jarjour, Vice-President, Strategic Planning and Policy		
Manitoba Federation of Labour		
Rob Hilliard, President		
John Doyle, Communications Coordinator		
University of Manitoba		
Jim Fergusson, Deputy Director, Centre for Defence and Security Studies		
George MacLean, Professor of Political Studies		
VANCOUVER, BRITISH COLUMBIA		
Duke University, North Carolina		76
Michael Byers, Professor of International Law		
End the Arms Race		
Peter Coombes, National Organizer		
University of British Columbia, Liu Centre for the Study of Global Issues		
Lloyd Axworthy, Director and Chief Executive Officer		

Associations and Individuals	Date	Meeting
Pacific Corridor Enterprise Council	06/05/2002	76
David Andersson, President		
Greg Boos, Vice-President		
Paul Daniell, President, Cascadia Institute		
Bill Grant, Vice-President		
James Kohnke, Chair of the Transportation Committee		
Andrew Wynn-Williams, Director, Policy Development and Communications, British Columbia Chamber of Commerce		
Simon Fraser University		
Theodore Cohn, Professor of Political Science		
Stuart Farson, Professor of Political Science and Research Associate, Institute for Governance Studies		
Richard Harris, Telus Professor of Economics		
University of British Columbia		
Kathryn Harrison, Professor of Political Science		
University of Victoria		
Reg Whitaker, Professor of Political Science		

TORONTO, ONTARIO

Associations and Individuals	Date	Meeting
C.D. Howe Institute	07/05/2002	77
Danielle Goldfarb, Policy Analyst		
Glendon College, York University		
Stéphane Roussel, Professor of Political Science		
United Steelworkers of America		
Sheila Block, Research Associate		
Lawrence McBrearty, National Director		
University of Toronto		
Stephen Clarkson, Professor of Political Science		

VANCOUVER, BRITISH COLUMBIA

Associations and Individuals	Date	Meeting
Doman Industries		78
Rick Doman, President and Chief Executive Officer		
Bob Flitton, Manager, Governmental Affairs		
Fraser Institute		
Gordon Gibson, Senior Fellow		
Fred McMahon, Director, Centre for Globalization		

Associations and Individuals	Date	Meeting
Simon Fraser University	07/05/2002	78
Daniel Cohn, Professor of Political Science		
University of Victoria		
Gordon Smith, Director, Centre for Global Studies		
TORONTO, ONTARIO		
Canadian Peace Alliance — Toronto	08/05/2002	79
Carolyn Bassett, Coordinator		
Council for Canadian Security in the 21st Century		
Jack Granatstein, Co-Chairman		
Ontario Federation of Labour		
Wayne Samuelson, President		
Christopher Schenk, Research Director		
Ontario Secondary School Teachers' Federation		
Rod Albert, Executive Assistant		
Rhonda Kimberley-Young, Vice-President		
Science for Peace		
Helmut Burkhardt, Past President		
Derek Paul, Past President and Coordinator of working groups		
Securitas Canada		
Richard H. Chenoweth, President and Chief Executive Officer		
CALGARY, ALBERTA		
Canadian Association of Petroleum Producers		80
Larry Morrison, Manager, Oil Sands		
International Institute for Sustainable Development		
Aaron Cosbey, Senior Advisor, Trade and Investment		
Project Ploughshares Calgary		
Kerry Duncan McCartney, Programme Coordinator		
University of Calgary		
Don Barry, Professor, Canadian Foreign Policy and International Relations		
Robert Huebert, Associate Director, Centre for Military and Strategic Studies		

Associations and Individuals	Date	Meeting
WINDSOR, ONTARIO		
City of Windsor	09/05/2002	81
Michael Hurst, Mayor		
John David Tofflemire, Commissioner, Traffic Engineering		
Windsor and District Chamber of Commerce		
Jim Drummond, Member, Board of Directors		
Alfie Morgan, Member, Board of Directors		
Lorraine Shalhoub, Director, External Affairs and Public Policy, DaimlerChrysler Canada		
Linda Smith, President		
EDMONTON, ALBERTA		
Alberta Federation of Labour		82
Jim Selby, Research Director		
Cambridge Strategies Inc.		
Satya Das, Principal		
Middle Powers Initiative		
The Honorable Douglas Roche, Senator and Chair		
University of Alberta		
Yasmeen Abu-Laban, Professor of Political Science		
Barry Scholnick, Professor of Business		
Brian Stevenson, Associate Vice-President (International)		
Wild Rose Agricultural Producers		
Paul Hodgman, Assistant General Manager, Alberta Pork		
Rod Scarlett, Executive Director		
SASKATOON, SASKATCHEWAN		
Citizens Concerned About Free Trade	10/05/2002	83
David Orchard, Honourary Chair		
Estey Centre for Law and Economics in International Trade		
William Kerr, Senior Associate		
Wayne Robinson, Director, Marketing and Professional Development		

Associations and Individuals	Date	Meeting
Farmers of North America Inc.	10/05/2002	83
Steve Nixon, General Manager		
Ash Skinner, Corporate Development		
Roman Catholic Diocese of Saskatoon		
Tony Haynes, Director of Social Outreach		

OTTAWA, ONTARIO

Associations and Individuals	Date	Meeting
Florida Atlantic University (Florida)	04/06/2002	87
Isaiah A. Litvak, Professor of International Business		
Canadian Foundation for the Americas	06/06/2002	88
Donald MacKay, Executive Director		
Stacey Wilson-Forsberg, Policy Analyst		
Canadian Institute for International Affairs (National Capital Branch)		
F.R. Cleminson, Member, National Missile Defence Study Group		
Keith Greenaway, Member, National Missile Defence Study Group		
George Lindsey, Chair, National Missile Defence Study Group		
Carleton University		
Laura Macdonald, Professor of Political Science and Director of the Centre for North American Politics and Society		
Canadian Chamber of Commerce	11/06/2002	89
Robert Keyes, Vice-President, International Division		
Alexander Lofthouse, Policy Analyst		
"Institut national de la recherche scientifique"		
Mario Polèse, Senior Adjunct Professor, Urban Studies		
Department of Industry	13/06/2002	90
Peter Harder, Deputy Minister		
Larry Shaw, Director General, International Business		
Pace University (New York)		
Stephen Blank, Professor of International Business and Management		
University of Ottawa		
Guy Stanley, Director of the International MBA Program		

MEETINGS IN WASHINGTON, D.C.

Associations and Individuals	Date	Meeting
Canadian Embassy	Monday, March 11, 2002	
Bertin Côté, Minister (Economic), Deputy Head of Mission		
Peter Boehm, Minister		
Woodrow Wilson International Center for Scholars		
Lee H. Hamilton, Director		
David Biette, Director, The Canada Institute		
Robert Litwak, Director, Division of International Studies		
Joseph S. Tulchin, Director, Latin American Program		
Center for Strategic and International Studies		
John Hamre, President and Chief Executive Officer		
Christopher M. Sands, Director, Canada Project		
Sidney Weintraub, Director, Americas Program		
Laurence Meyer, Distinguished Scholar		
Department of State		
John Keane, Deputy Assistant Secretary, Bureau of Western Hemisphere Affairs		
Nancy Mason, Director, Office of Canadian Affairs, Bureau of Western Hemisphere Affairs		
John Dawson, Office of Mexican Affairs, Bureau of Western Hemisphere Affairs		
Timothy Tulenko, Political-Military Officer, Office of Canadian Affairs, Bureau of Western Hemisphere Affairs		
Robert Simmons, Deputy Director, Office of European Security and Political Affairs, Bureau of European and Eurasian Affairs		
National Security Council		
John F. Maisto, Special Assistant to the President and Senior Director for Western Hemisphere Affairs		
Franklin C. Miller, Special Assistant to the President and Senior Director for Defense Policy and Arms Control		
Richard A. Falkenrath, Director of Policy and Plans, Office of Homeland Security		
William McIlhenny, Director for Canada and Mexico		

Associations and Individuals	Date	Meeting
Canadian Embassy: U.S. Officials	Tuesday, March 12, 2002	
William Crosbie, Minister-Counsellor (Economic and Trade Policy) — Canadian Embassy		
Ben Fairfax, Office of Director for Bilateral Trade Affairs, United States State Department		
Courtney Turner, Economist, Office of Bilateral Trade Policy, Bureau of Economic and Business Affairs, United States State Department		
Kent Shigetomi, Director for Mexico and NAFTA Affairs, Office of the United States Trade Representative		
Juliette Bender, Director, Office of NAFTA and Inter-American Affairs, United States Department of Commerce		
Alan Minz, Counsellor (Trade Policy) — Canadian Embassy		
United States House of Representatives		
Hon. Amo Houghton, M.C. (New York)		
Hon. John J. Lafalce, M.C. (New York)		
Hon. Nick Smith, M.C. (Michigan)		
Canadian Embassy: Expert Luncheon		
Michael Kergin, Ambassador		
Bertin Côté, Minister (Economic) and Deputy Head of Mission		
Doris Meissner, Senior Associate, Implementing Global Policy Project, Carnegie Endowment for International Peace		
Anthony Quainton, CEO, National Planning Association		
Frank Vargo, Vice-President, International Economic Affairs, National Association of Manufacturers		
Peter Hakim, President, Inter-American Dialogue		
John Murphy, Vice-President, Western Hemisphere Affairs, U.S. Chamber of Commerce		
Gary Hufbauer, Reginald Senior Fellow, Institute for International Economics		
Peter Morici, Economist, University of Maryland		

MEETINGS IN MEXICO CITY, MEXICO

Associations and Individuals	Date	Meeting
Canadian Embassy	Wednesday, March 13, 2002	
Keith H. Christie, Ambassador		
Geneviève des Rivières, Minister-Counsellor (Commercial/ Economic)		
James Lambert, Minister-Counsellor (Political)		
Jennifer Irish, Counsellor (Congressional and Public Affairs)		
Senate of Mexico		
Senator Silvia Hernández, Chair, Foreign Relations Committee, North America		
Senator Fernando Margain Berlanga, Chair, Foreign Relations Committee		
Senator Germán Sierra Sánchez, Secretary, Foreign Relations Committee		
Senator Lydia Madero Garcia, Member, Foreign Relations Committee		
Senator Federico Ling Altamirano, Member, Foreign Relations Committee		
Erika Spezia, Deputy, and Secretary, Foreign Relations Committee		
Miguel Gutiérrez Hernández, Deputy, and Chair, Citizen Participation		
Senator Cesar Camacho, Chair of the Committee on Federalism and Municipal Development		
Senator Ricardo Aldana Prieto, Secretary, Energy Committee		
Senator Erick Rubio		
1st Panel of Experts Invited by Canadian Embassy		
Rafael Fernandez de Castro, Chair, Department of International Studies, "Instituto Tecnológico Autónomo de México"		
Guadalupe Gonzalez, Professor of Political Science, "Centro de Investigación y Docencia Económicas"		
Antonio Ocaranza, Director, Public Strategies Inc.		
Gustava Vega, Professor, "El Colegio de México"		
Monica Serrano, Professor, "El Colegio de México"		

Associations and Individuals	Date	Meeting
2nd Panel of Experts Invited by Canadian Embassy	Thursday, March 14, 2002	
Andrés Rozental, Former Ambassador, President of the Mexican Council on Foreign Relations		
Luis de la Calle, Under Secretary for International Trade Negotiations, Ministry of Commerce and Industrial Development		
Peter Cardinal, President, Executive Committee of Scotiabank Inverlat		
Antonio Ortiz Mena López Negrete, Professor, "Centro de Investigación y Docencia Económicas"		
Susan Minushkin, Professor, "Centro de Investigación y Docencia Económicas"		
3rd Panel of Experts Invited by Canadian Embassy		
Luis Tellez Kuenzler, Chief Executive Officer, DESC Group		
Jaime Serra Puche, Senior Partner, Serra Associates International		
Isidro Morales, Professor and Dean of Social Sciences, "Universidad de las Americas-Puebla"		
María Teresa Gutierrez Haces, Professor, "Universidad Nacional Autónoma de México"		
4th Panel of Experts Invited by Canadian Embassy		
Enrique Berruga, Under Secretary of Foreign Affairs		
Carlos Flores Alcocer, Strategic Planning and Regional Development, Office of the President of the Republic		
Rafael Rubio, Chair, International Affairs Committee, Mexican Steel Producers' Association		
Javier Prieto de la Fuente, President, CONCAMIN Group		

MEETING AT DETROIT-WINDSOR BORDER CROSSING (AMBASSADOR BRIDGE)

Associations and Individuals	Date	Meeting
Pete Diponio, Regional Director, Customs Division, Windsor-St. Clair Division, Canada Customs and Revenue Agency	Thursday, May 9, 2002	
Geroge Costaris, Manager, Political, Economic Relations and Public Affairs, Consulate General of Canada, Detroit		
Lisa Kobel, Director, Operations, Ontario West, Citizenship and Immigration Canada		
Pat Moran, District Director, United States Customs		
David MacRae, District Director, Customs, Ambassador Bridge, Wndsor-St. Clair Division, Canada Customs and Revenue Agency		
Robert Bruce, Acting Manager, Windsor Port of Entry, Citizenship and Immigration Canada		

APPENDIX B
LIST OF BRIEFS

Abu-Laban, Yasmeen
Atlantic Institute of Market Studies
Atlantic Provinces Chamber of Commerce
Balthazar, Louis
Barry, Don
Blank, Stephen
Bradfield, Michael
British Columbia Chamber of Commerce
Byers, Michael
Cambridge Strategies Inc.
Canadian Chamber of Commerce
Canadian Chemical Producers' Association
Canadian Foundation for the Americas
Canadian Labour Congress
Canadian Manufacturers and Exporters
Canadian Wheat Board
Carmichael, Benoît
Cascadia Institute
Castro-Rea, Julián
C.D. Howe Institute
Citizens Concerned About Free Trade
Clarkson, Stephen
Coalition for Cultural Diversity
Cohn, Daniel
Confederation of National Trade Unions
Council for Canadian Security in the 21st Century
Cyrus, Teresa
DePasquale, Joseph
Doran, Charles F.

Dukert, Joseph (Washington)

End the Arms Race

Enviro-Clare

Estey Centre for Law and Economics in International Trade

Farlinger, Shirley

Farmers of North America Inc.

Farson, Stuart

Fédération des travailleurs et travailleuses du Québec

Flynn, Stephen

Hanson, Jason

Harrison, Kathryn

Hart, Michael

Harvey, Frank

Hill, Rod

Hourigan, Gail and Karl

Kirton, John

Legault, Albert

Lindsey, George

Macdonald, Laura

MacLean, George

Memorial University of Newfoundland Students' Union

Murphy, Linda

New Brunswick Federation of Labour

Newfoundland and Labrador Federation of Labour

North-South Institute

Nota, Bruna

Ocaranza, Antonio

Ontario Federation of Labour

Ontario Secondary School Teachers' Federation

Ortíz Mena López Negrete, Antonio

Pacific Corridor Enterprise Council

Pastor, Robert A.

Project Ploughshares, Calgary

Project Ploughshares, Saskatoon
Public Policy Forum
Quainton, Anthony
Railway Association of Canada
Randall, Stephen
Religious Society of Friends (Quakers), Hamilton
Roman Catholic Diocese of Saskatoon
Roussel, Stéphane
Sands, Christopher
Scholnick, Barry
Science for Peace
Securitas Canada
Skinner, Derek
Smith, Gordon
Stairs, Denis
Stanley, Guy
Stevenson, Brian
Stuart, Reginald
Thomas, Kenneth
Transboundary Watershed Alliance
United Steelworkers Union
Vancouver Port Authority
Van Dyck, Stephen
Windsor and District Chamber of Commerce

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the Government table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings (1st Session, *Meeting Nos* 5, 30, 42-47, 55-64, 72, 74-83, 87-90; 2nd Session, *Meeting Nos* 6, 8, 11-15, including this report*)* is tabled.

Respectfully submitted,

Bernard Patry, M.P.
Chair

Supplementary Opinion: Canadian Alliance

The Canadian Alliance recommends that the Government of Canada have as a critical priority the improvement of the bilateral relationship with the United States of America. While important, the trilateral North American relationship should not take precedence over the bilateral Canada-U.S. relationship. We do though look forward to improved bilateral and multilateral relations with Mexico. The current government has mishandled Canada's relationship with the United States. Canadians have paid the price for the government's short-sighted approach to our most important international relationship.

Within that context, the Canadian Alliance offers this response to the report of the Standing Committee on Foreign Affairs and International Trade entitled *Partners in North America: Advancing Canada's Relations with the United States and Mexico*.

The Canadian Alliance supports most recommendations of the report; however, we take strong exception to one recommendation and disagree with aspects of others. As an overall comment, the Canadian Alliance members contend that the report's tone reflects some ambivalence as to the benefits of greater North American economic integration.

Canada and the United States have currently more than 80 treaty-level defence agreements (including NORAD), 150 bilateral defence fora and some 150 Memoranda of Understanding between the two countries' militaries. Canada continues to derive significant benefits from this relationship including privileged access to the United States defence market, a limited influence on defence policy and cost effective continental defence strategies. Given that Canada's defence budget is only 1.4 percent of the United States, Canada has done remarkably well in its security relationship. Canada should extend that relationship through a contribution to the United States missile defence program.

The United States' missile defence program as currently conceived would provide for limited defence against rogue states armed with ballistic missiles and weapons of mass destruction as well as accidental launches. For some years now concern has arisen that weapons of mass destruction in the hands of rogue states or terrorists could pose a grave threat to North America. A missile defence program offers the opportunity for a non-nuclear defence to a possible attack and protection from accidental launch.

We note that the vice-chief of the Canadian military defence staff, Lt.-Gen. George Macdonald, has stated that Canada must sign on with the missile defence program or risk causing a "rift" in NORAD and a diminishment of our role in the protection of North America, stating: "If we do not participate, it will have significant impacts on the long-term future of NORAD." … "There will be a segregation of Canada and its part in the NORAD mission that will collectively not be to our advantage."

Unfortunately, the Canadian Government has refused to support American efforts to develop a continental missile defence system to protect North America from this threat. In fact, the Canadian Government has actually worked to thwart U.S. efforts in this important defence area. The Canadian Government failed to provide diplomatic support for the successful U.S. effort to dismantle the old Anti-Ballistic Missile (ABM) Treaty, which was an impediment to missile defence development.

The committee is mistaken in its assertion that missile defence "technology has not been proven." The U.S. Missile Defense Agency (MDA) has successfully conducted flight tests of the Ground-based Midcourse Defense (GMD) development program in October 2002, with the fourth consecutive successful intercept for the GMD program. Furthermore, the U.S. Missile Defense Agency and the U.S. Navy have also conducted successful flight tests in the continuing development of the Aegis Ballistic Missile Defense element of the Ballistic Missile Defense System, where the third consecutive target intercept flight was conducted in November 2002.

We further note that the United States and their allies, such as Japan and Israel, already deploy short-range missile defence systems, such as the PATRIOT and Arrow systems and have already conducted significant bilateral missile defence research and development with the United States. Furthermore, the British Defence Secretary, Geoff Hoon, stated on November 12, 2002 that the U.S. development of a long-range missile defence system would help neutralize the threat from rogue states and "has the potential to enhance strategic stability for everyone."[1] Even further, the Prime Minister of Denmark, Anders Fogh Rasmussen, expressed his support for a missile defence system under the NATO alliance on November 21, 2002 and stated that his Government is "taking important steps to examine missile defence options to defend against the full range of missile threats."[2]

The committee also misleads Canadians by appearing to link a continental missile defence system with "the weaponization of outer space." The program would not put weapons in space. It only relies on space-based satellite technologies for detection and communication purposes. Continued Canadian confusion on this point may have contributed to the U.S. moving its Space Command out of the joint Canada-U.S. North American Air Defence (NORAD) command.

There is no immediate financial cost for the Canadian Government to support continental missile defence. With new political support for the concept, we would also be opening up new opportunities for Canadian firms in the defence industries.

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[1] Reuters News Agency, "U.K. minister urges missile shield debate," *The Toronto Star*, pg. A18, November 13, 2002.

[2] Speech, Anders Fogh Rasmussen, Prime Minister of Denmark, at the Meeting of the North Atlantic Council at the level of Heads of State and Government, November 21, 2002.

We note that CAE of Montreal will join forces with U.S. aerospace giant Boeing to conduct research on simulating how the anti-missile system might operate. Boeing, one of the key players in the development of the missile shield, plans to use CAE's computer modelling and simulation technology.

We further note that the report does not urge the Canadian Government to engage the United States Government on the issue of their new Northern Command structure, which is now figuring prominently into all issues surrounding the defence of North America. Active Canadian engagement with Northern Command presents the potential for greater cooperation with the U.S. on sea and land continental defence, similar to that enjoyed by Canada under the NORAD agreement.

Therefore, the Canadian Alliance would propose the adoption of the following recommendation:

> **Canada should support to the Government of the United States for a continental missile defence system and that such a system should come under the operational command of NORAD. The Government of Canada should also indicate its desire to pursue cooperation with the Government of the United States on its Northern Command structure for continental defence.**

Security Perimeter

Under this government, Canada has weakened its support, both material and political, for continental security initiatives. It is naïve to think that the US has simply overlooked this shift in government policy and decline in material support. Though aware of Canada's drift, US decision makers until recently could still view Canada as fundamentally still upholding its end of the bargain — a secure Canada-United States border.

The security of the Canadian border — both for Canadians and Americans — has yet to overcome the shock of December 14, 1999 — the day Algerian terrorist, Ahmed Ressam, was arrested in Port Angeles, Washington after debarking from the Coho Ferry from Victoria, British Columbia. Ressam, a resident of Montreal, had a trunk of explosives and a plan to bomb the Los Angeles airport.

The significance to the US of Ressam's arrest is this. In the new global conflict between the West and Islamic terrorism, the US's northern border is not only not secure, but also potentially a conduit of threat. "There's no question that groups affiliated with political violence consider Canada a safe haven," said Vincent Cannistraro, a former director of counter-terrorism for the Central Intelligence Agency. "It has been that way for a long time due to a benign environment."

The Canadian Security and Intelligence Service had alerted the government to this possibility in its pre-Ressam report, "Exploitation of Canada's Immigration System: An Overview of Security Intelligence Concerns." CSIS identified in 1999 over 50 terrorist groups operating out of Canada. Most of the active members arrived in Canada as refugee claimants.

In 2001, Canada received some 44,707 refugee claims. Of these 18,502 were undocumented. As of 2001, 6,302 foreign criminals with outstanding removal orders remain at large in Canada. Of all criminals ordered removed, 34 percent of them still remain at large. The level of undocumented persons and foreign criminals in Canada clearly has given rise to concerns in the United States. It should provoke at least as strong a response in Canada.

The events of September 11, 2001 made real and pressing to all North Americans the threat of terrorism and the vulnerability of Canada's border due to lax enforcement of its refugee policies.

Therefore we would propose the adoption of the following recommendation.

Canada should examine the possibility of a security perimeter with the United States. As a first step to that end and for our own security needs, Canada should commit to strengthening the integrity of our refugee policies through, for example, more effective tracking of visa holders and more effective removal procedures.

War on Terrorism

Terrorism is now the single greatest threat to North American and global security. Since the attacks of September 11th, 2001, terrorist networks have continued to strike at western targets. While the multinational operation in Afghanistan has largely succeeded, much work remains to be done in order to root out terrorists in an estimated 60 other countries. The strategic reality is that the War on Terrorism will likely continue for many years.

The Canadian Government, however, should do more in the War on Terrorism. The lack of suitable Canadian aircraft has lead to Canadian Forces having to rent foreign planes to airlift our troops into the Afghan theatre of operations. The decline in operational readiness meant that the Canadian Battle Group had to withdraw after six months in Afghanistan. Canadian Forces had to operate without tactical-strike helicopters due to inadequate material support from the government. The Canadian Forces are under-equipped and under-manned and as a result, our forces are not prepared to make significant contributions to future coalition efforts.

The Canadian Government's policy of defence freeloading has resulted in the Canadian Forces becoming increasingly dependent on U.S. and coalition support. While the Canadian Alliance agrees with the committee's recommendation 13, that "the Government should commit itself to substantially increased and stable multi-year funding for the Department of National Defence", we note that to date the government has failed to respond to past similar calls for genuine efforts to arrest the decline in our forces' material capabilities.

The Canadian Alliance supports consideration of a new defence strategy in the War on Terrorism that addresses the question of our forces operating more regularly in forward theatres of war to better assist our allies such as the United States, Britain and Australia. As a G8 nation, Canada cannot continue to play token roles in coalition efforts to maintain international peace and security. Any new defence strategy for fighting terrorism will only succeed if the Canadian Government improves our ability to independently deploy our forces rapidly and precisely.

Therefore, the Canadian Alliance would propose the adoption of the following recommendation:

> **Canada should re-examine its contribution to the fight against terrorism. Canada should consult with the United States and its other allies in order to ensure that Canadian Forces counter threats before they reach North America. The Canadian Forces should have the resources necessary to send highly disciplined rapid-reaction forces to any part of the world with appropriate air and naval support.**

Outlawing Foreign Terrorist Organizations

The committee's report does not address an issue that is undermining Canada's credibility in security issues with the United States: the government's slow and piecemeal approach to outlawing foreign terrorist organizations from operations, including fundraising in Canada. According to the Canadian Conference of Defence Associations, "most members of the U.S. Congress believe that Canada is a haven for terrorists."[3]

Of the greatest concern is the government's failure to outlaw Hezbollah, a terrorist organization whose global reach is only surpassed by al-Qaeda. In the House of Commons on October 21, 2002, the Minister for Foreign Affairs stated the Government would not outlaw Hezbollah because, "The policy of the government and the tradition of this country has always been one of seeking dialogue as a way of solving problems." While the Canadian Government appears now to be moving grudgingly towards outlawing Hezbollah, we have serious concerns about the length of time it has taken and the lack of urgency that reflects.

The Canadian Government has also failed to outlaw, yet, the Revolutionary Armed Forces of Colombia (FARC) which is responsible for thousands of deaths each year and threatens Canadians working in Columbia. The Canadian Government has also failed to outlaw, yet, the Jemaah Islamyia (JI), the organization now being investigated for the Bali terror bombing which killed almost two hundred people including two Canadians. More generally, the Canadian Government has failed to outlaw some 25 foreign terrorist organizations that are outlawed in the U.S.

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[3] Conference of Defence Associations, "A Nation at Risk: The Decline of the Canadian Forces," pg. xxii.

Therefore, the Canadian Alliance would propose the adoption of the following recommendation:

> **The Canadian Government should outlaw Hezbollah immediately, improve its process of determining outlawed organization and work towards greater consistency with the United States and other allies as to the list of terrorist organizations. Canada should contribute more to combating terrorism through cooperation with the United States and other key allies.**

Safe Third Agreement

The report cautions the government to monitor the Safe Third Agreement recently ratified with the United States. The agreement seeks to prevent multiple refugee claims by requiring the potential applicant to make a refugee claim in the first country they reach which conforms to international norms in the treatment of refugees. The current agreement with the United States only applies to potential refugee claimants who reach a Canada-U.S. land border crossing.

The Canadian Alliance fully supports the principle of the Safe Third Agreement.

Therefore, the Canadian Alliance would propose the adoption of the following recommendation.

> **The Government of Canada should signal to the United States government its interest in expanding the Safe Third Agreement to include potential refugee claimants arriving at airports, seaports and inland offices.**

Customs Union

A customs union is defined as "A group of nations that have eliminated tariffs and sometimes other barriers that impede trade with each other, while maintaining a common external tariff on goods imported from outside the union."

Any customs union sought should not entail raising any Canadian tariffs to U.S. levels. We should continue to work through the World Trade Organization and other multilateral bodies for the reduction of tariff and non-tariff barriers.

We note as well the remarks of Paul Cellucci, the U.S. Ambassador to Canada, to the effect that while investigating further integration has merit, it should not slow down or impede sectoral discussions around North American energy security and border security.

Therefore, the Canadian Alliance would propose the adoption of the following recommendation.

> **The Government of Canada should give serious consideration to a customs union that would remove bilateral tariffs, but not necessarily harmonize external tariffs, and that would not impede ongoing energy and border discussions.**

Taxation

A country's relative tax levels affects its competitiveness in attracting new investment. Canada, as compared to the United States, has higher corporate and individual income tax rates. The Committee did not fully explore the impact of taxation on the economic integration of North America.

Therefore, the Canadian Alliance would propose the adoption of the following recommendation.

The Government of Canada as a general principle should move towards ensuring Canada has tax rates lower than those of the United States in order to ensure continued flows of new investment.

The Committee has good ideas but does not take them far enough

Dissenting Opinion of the Bloc Quebecois for the report on continental integration

A substantial report

Let us say it right off: this report by the Standing Committee on Foreign Affairs and International Trade is a substantial one. It addresses the main aspects of North American integration, including economy, trade, co-operation on matters of security, social development and environmental protection. It identifies the state of affairs, principal issues, perceptions and challenges.

We in the Bloc Quebecois, are very proud to have been a part of this exercise, which took place over more than a year and which allowed us to hear thousands of quality presentations. We traveled to Washington and Mexico. We traveled all across Canada, including to two hearings, one in Montreal and one in Quebec City. These hearings, in addition to being invaluable, gave us a sense of the people, their concerns and their expectations.

We want to thank the witnesses. We gave their opinions, requests and suggestions serious consideration. Obviously, because certain positions are irreconcilable, we had to make choices. At times these choices differed from those of the Liberal majority on the Committee, hence this dissenting opinion.

Interesting ideas

Without Quebec, the government of Brian Mulroney could not have signed FTA. We Quebecers are open-minded. Recently, however, NAFTA-related problems have arisen, and the idea has caught on that free trade is inadequate in the face of problems of poverty and the growing discrepancies in income and, on the other hand, there is a need to protect Quebec's powers to make policies within its areas of jurisdiction.

In this regard, a number of the positions the Bloc Quebecois has been defending for some time on North American integration, although largely accepted in Quebec, have, for a long time, had little support in Canada. By trying once again and putting them to the witnesses and experts over the course of consultations, we have championed some of them. The Committee has made progress in the past year.

Let us take, for example, the idea of creating a social and structural development fund to help those who have not fared well under North American free trade. This idea, launched by Mexican President Vicente Fox when he visited Ottawa in September 2000, was received so well in Quebec that the Government of Quebec officially supported it. And yet, it went largely unnoticed in English Canada, and, at the start of the hearings, the Bloc met with categoric rejection on a number of occasions when it proposed it. But the idea caught on.

There are enormous economic discrepancies among the three North American countries and even among regions within these countries. The gap between the rich and the poor is growing — in Canada as well. Free trade alone is not reducing it, far from it. In fact, the liberalization of markets is leaving a lot of flotsam in its wake. The integration of the continent must be accompanied by a series of measures supporting those whom economic progress neglects, and there are many. Enjoyment of the advantages of access to a bigger market requires the appropriate infrastructures, be it in the areas of transportation, education or health. So when the poor are left to carry the burden of their poverty by themselves, they are unlikely to ever escape it.

The European Union has understood that and established a significant structural and social fund to distribute wealth in the case of the countries destined to become members. Despite certain failings, this fund was remarkably successful in that countries such as Ireland and Spain moved from relative poverty to prosperity. From the financial weights they were, these countries became full-fledged partners in the European Union and significant markets. This is a bit like what we were proposing for the North American continent.

A year ago, the idea was considered marginal in Canada. It has caught on to such an extent that the Committee is calling for more research on its feasibility. We are delighted and pleased.

Let us have a look at chapter 11 of NAFTA on protection of investment, as well. This chapter, which permits a business to sue a foreign government directly when it considers that a law prevents it from taking full advantage of its investment, is causing a number of problems. The scope of the chapter is so broad that it permits the most frivolous of proceedings. The amount of the suit can be so high that it discourages a government wishing to pass social or environmental legislation. In addition, the entire process lack transparency and openness.

The Bloc Quebecois has decried these potential abuses for a number of years, and witnesses in large numbers supported our position, to the point that the Committee adopted it in part. While it did not go as far as we would like, as we point out later, we are still pleased with the progress made.

The position of Committee members moved forward on another aspect of North American integration as well. It involves relations with Mexico. Perhaps it is for cultural reasons, But English Canada feels very close to the United States and far removed from Mexico. In English Canada, the tendency is often to consider Mexico a competitor when it comes time to attract the attention of the United States.

Quebec, on the other hand, tends to consider it an ally with which to tighten links, as a counterweight to the dominant American influence. It is all the more important for the Bloc Quebecois members, who know full well that it will be to the advantage of the country of Quebec to cultivate such relations. Ottawa takes offence at this sometimes. There was, for example, the episode where the federal government worked actively to prevent a meeting between the Premier of Quebec and the Mexican president, before it facilitated a similar meeting with the Premier of Alberta.

In all of Canada, it is Quebec that trades with Mexico the most and it is Quebec that has the closest ties of co-operation with Mexico. The Committee's stay in Mexico, the many Mexican interventions, non interventions, seem to have borne fruit, as the report contains a number of signs of openness toward Mexico, which we had not seen previously. Here too, we are pleased.

The need for a counterweight to the dominant influence of the United States, which can be put into effect only through a set of alliances within multilateral institutions, has been felt increasingly since the terrible attacks of September 11, 2001 in the United States. The ensuing tension, while understandable, puts us under considerable pressure. While we are aware of our neighbour's need for security, we must not lose sight of our values and interests. This is why certain aspects of co-operation with the United States worry us.

For example, the Canada-U.S. agreement on safe third countries could threaten our policies on such fundamental issues as our immigration policy or our acceptance of the refugees crucial to our survival as a French-speaking people on this continent. In addition, the proposed American missile shield, largely supported by the right in Canada, brings into question the entire policy on nuclear non-proliferation. While it did not go as far as we would have liked, the Committee did take our concerns into account.

Another advance: the Committee finally recognized the growing role played by the provinces in North American relations. Although the majority did not support the creation of a formal mechanism for consultation, it did, however, take an initial step.

We have examples of co-operation, such as the Great Lakes Commission or the Conference of New England Governors and Eastern Canadian Premiers. This co-operation is all the more important with the United States, our neighbour and principal partner, with which Quebec will continue to have special ties, regardless of the fate Quebecers choose for themselves.

The Bloc Quebecois intends to take advantage of the Committee's slim window to promote the role that Quebec, within its areas of jurisdiction, can now play in international relations. In this time of rapid change and increased international trade, it advocates the extension of the window linking the people of Quebec and the world. It is vital to free Quebecers from the diplomatic isolation the federal government tries to keep it in.

The Committee's study also gave us an opportunity to initiate certain discussions that are still taboo in English Canada. There is, for example, the issue of money. It must be recognized that the weakness of the Canadian dollar is causing problems of productivity and thus of prosperity. Its constant fluctuation compounds the task of our exporters. These problems are felt to such a point that a number of businesses prefer to do their accounting in American dollars and some of the cash reserves of the banks is in greenbacks.

Should we contemplate adopting a common currency to deal with these problems? The Bloc Quebecois proposed the creation of a monetary institute of the Americas to look into the question. We had the courage to do what no other party in the House of Commons has done. No doubt less attached to the Canadian dollar, 54% of Quebecers considered the idea of a common currency interesting, in contrast with a meagre 35% of Canadians, in a poll taken by Léger-Léger in September 2001. Nevertheless, the Committee was obliged to consider this issue and it even agreed to move research forward.

A lack of desire

Recognizing a problem is one thing. Working to resolve it is another, requiring more will. In several instances, the Committee was not prepared to take the step. We find that most regrettable.

Environment: The example of environmental protection is blatant. The unbridled competition created by open markets is having a negative impact on environmental legislation. Indeed, some might be tempted to promote competition over environmental protection. This must not happen.

The North American Agreement on Environmental Co-operation is notoriously ineffective. Decisions by the Commission for Environmental Co-operation (CEC) may be enforced only with the consent of the parties, in other words, never. After all, who would agree to be fined? And, in any case, its only mandate is to ensure countries comply with their own legislation. If these laws are ineffectual, it can do nothing.

It has been proposed to include minimum standards in the agreement on environmental protection, which the countries would be obliged to meet. Alas, the proposal was rejected.

Labour laws: The race to compete puts even greater pressure on working conditions; something that in part explains the growing gap between rich and poor. The North American Agreement on Labour Co-operation is reputed to be even more ineffective than the agreement on the environment. Here again, there is no minimum standard continent-wide.

The three North American countries have, however, reached agreement within the International Labour Organization on the recognition of certain basic rights, such as banning work by children and the right of association and to bargain collectively, for example. However, nothing requires them to honour these conventions.

The Bloc proposed including these basic conventions in the North American Agreement on Labour Co-operation, which would have made them enforceable. Here again, we were rejected.

Social and structural development fund: With respect to the social and structural development fund, the Committee did call for further research, but did not formally agree to the principle. What would have been an important message to send to the government became a missed opportunity. The mandate given the government is far too narrow to enable it to exert real pressure.

Quebec, like Canada, has victims of free trade. During the hearings, Professor Mario Polèse of the INRS, with figures to back him up, showed that, in Quebec, the major centres were benefiting from free trade, whereas the outlying regions suffered. The gap between the rich and the poor expands relentlessly. As many witnesses said, Canada has never tried to adapt its social safety net to this state of affairs. Quite the contrary, government policy has simply accentuated the trend. Cuts to Employment Insurance, cuts to transfer payments to the provinces, which still have the task of maintaining the essence of the social programs.

Sectors affected: Free trade has given a major boost to certain sectors of our economy, especially those relating to new technologies. Other sectors, however, have suffered. The price of raw materials has dropped, to the detriment of mining regions. Low value-added industries, including clothing in Montreal, are having a hard time competing with poorer countries. Where are the help measures for those workers who suffered of that situation?

Softwood lumber: We are well aware that some effort has been made to decry the current state of affairs in the softwood lumber sector in Quebec and Canada. Nevertheless, considering the discussions that the Committee had in Washington, we deplore the lack of force of the report with that regards.

For over nine months now, the Bloc Quebecois has been calling on the federal government to put measures in place to help businesses survive the softwood lumber crisis, created by the Americans' imposition of a 27.22% countervail and anti-dumping duty. With time, these sanctions could prove fatal to some businesses no longer able to absorb the losses. The objective of the Americans in this whole saga is obviously to play for time in order to wear down our forestry industry and eventually buy out our businesses at cut-rate cost. A victory before the WTO will be a hollow one if there are no more softwood lumber companies.

The Bloc Quebecois proposed a series of measures to help the workers and businesses affected by the crisis, including an increase of Employment Insurance premiums as long as their duration, the creation of a specific program for older workers and the instauration of a special status for seasonal workers to facilitate their access to Employment Insurance. For businesses, we demand a loan-guarantee program as well as incentives for second and third transformation industries and interior demand stimulation. In the absence of such measures — and the Government still delays action — many workers and businesses might not survive crisis.

NAFTA's institutional framework: In another vein, it must be admitted that the entire institutional framework of NAFTA is inadequate. The dispute resolution process is neither transparent nor open. We have proposed solutions from the publication of documents on the causes before arbitration tribunals to granting the provinces or NGOs the right to make presentations there. This, too, the Committee rejected.

Retaining our independence from the United States: Finally, the Bloc expressed concerns over Canada's desire to keep its policies distinct from those of the United States in a number of areas, including immigration policy, foreign policy and defence policy, among others. The Committee did include a paragraph to express these concerns, but never made the strong statement of principles we were expecting.

Defence: In terms of defence, the Committee proposes to substantially increase the defence budget. Defence policy is currently being re-evaluated. Foreign policy will be re-assessed next year. According to whether Canada decides to intensify its military cooperation with NATO allies or to concentrate on its role as a peacekeeper with the UN, the needs of the Canadian forces will be radically different. The Bloc Quebecois thinks that it would be preferable for the Government to wait for until the new foreign policy is adopted, allowing us to assess the needs of the military to enable it, before substantially increase the budgets.

It is true our military is exhausted. Some of the equipment may be outdated. It is possible that a budget increase is necessary. However, seeking a substantial budget increase before even deciding what it will be used for lacks caution. We cannot support this.

Conclusion

Eight years after NAFTA came into force, it was time for an assessment. Quebec as a whole has benefited from it. The differences between Quebec and Ontario, in terms of revenue or unemployment, for example, have never been so slim.

However, NAFTA has produced more than just benefits. The wealth it has generated is very unequally distributed. Certain regions are becoming poorer. The number of those left out is growing. Free trade alone cannot resolve all the problems. It must be accompanied by other measures so as to prevent the inequalities from ceaselessly expanding. What is more, concerns over the powers of government are beginning to appear, and they must be dealt with.

The Committee has noted these discrepancies in its report. It expressed its concern. We in the Bloc Quebecois, however feel that it failed to take the additional step that would have brought it to propose specific measures to resolve them. We find this regrettable.

As negotiations are underway in a new WTO round and the question of the expansion of free trade to the three Americas is being considered, the experience gained with NAFTA is invaluable. The Committee should have set out strong and clear principles to guide the actions of the government in these negotiations and thus prevent the repetition of NAFTA's failings. We regret that it did not do so sufficiently clearly in its report.

Dissenting Opinion
Standing Committee on Foreign Affairs and International Trade
Report on Advancing Canada's Relations With the United States and Mexico

Svend J. Robinson, MP

The New Democratic Party dissents from this report. Far from deepening the level of integration between Canada and the US, New Democrats believe that we must re-assert our sovereignty and independence. If we are not to lose our country, we must vigorously resist any further American economic, military, or social domination of Canada, and instead strengthen our ability to fully protect our sovereignty and to speak with a respected independent voice internationally. There is a long history of friendship between the American people and Canadians. Our quarrel is not with the American people, it is with their governments' policies. We believe that Canada must exercise great caution when considering the advancement of relations with our North American neighbours, particularly given the experience of the FTA and NAFTA, and the loss of Canadian democratic control over our sovereignty to which these have led. Furthermore, it is imperative that Canada recognize the risks involved in closer ties to the United States, the global hegemon in terms of economic and military power, as well as cultural influence. If Canada is to maintain its identity, values, institutions, and its independent voice in global affairs, we must choose very carefully the ways in which we associate ourselves with our continental neighbours.

While my New Democrat colleagues and I acknowledge and value the dedication and hard work of my fellow Committee members in holding extensive hearings with a wide variety of important witnesses on the subject of North American integration and security, in a number of important respects we cannot concur with the final report of the Committee. In some cases we dissent from the conclusions drawn by the majority, in others we find that the conclusions of the report do not accurately reflect the evidence heard by the Committee. Like my colleagues, I want to thank all of the witnesses who appeared before us. Their evidence was of great value for its depth and insight.

The NDP believes strongly that further integration of the North American nations must not continue on the basis of free trade agreements and the primacy of "competitiveness," as these have dramatically reduced Canadian sovereignty in a wide array of policy issues, and eroded the democratic power of Canadians to determine their future. Under NAFTA, Canada has exposed many of its most cherished institutions to commodification and privatization. In seeking to further our economic ties with the United States, Canada has increasingly found it necessary to adopt American policy positions, both domestically and with regard to international relations. The New Democratic Party seeks to reverse this process, before Canada loses its independence.

In its report, the Committee has taken some small steps towards addressing some of these concerns. However, it does not go nearly far enough. The following are the key areas in which we believe that the majority report must be changed or strengthened:

1. The Report recommends increasing Canada's economic integration with our North American neighbours through expansion of the NAFTA. New Democrats call for the fundamental renegotiation of NAFTA, (and failing that, abrogation), to take into consideration the many deleterious effects it has had in all three member countries. In particular, NAFTA has had a serious impact on democracy and sovereignty in Canada, as it has led to a growing trend to enhance corporate power at the expense of democratically elected officials at all levels of government. The best example of this is NAFTA's Chapter 11. We have seen how national governments have been forced to permit foreign corporations to sell harmful, toxic materials, or to damage the environment in cases like Metalclad, Methanex, and MMT. NAFTA as a whole has been shown to have had a negative impact on the environment, as documented recently in a report of the NAFTA Environment Commission. We must do everything in our power to oppose US approval of proposed drilling in the environmentally sensitive Arctic National Wildlife Refuge. The report recommends that the Government hold discussions with the US and Mexico regarding the strengthening and improvement of the North American Agreement on Environmental Cooperation and the North American Agreement on Labour Cooperation. We believe that these two side agreements should be incorporated into the NAFTA itself, and given real powers to ensure that the environment and human rights are not subjugated to the primacy of trade at any cost. We have also seen how necessary public services like Canada Post have been threatened by foreign competitors, as in the current UPS NAFTA claim. Public education in Canada is also at risk under NAFTA. There are very real concerns that Canada's energy sovereignty and our ability to prevent bulk water exports are jeopardized by NAFTA. Our ability to expand social programs like medicare into areas such as home care, dental care, or a national drug plan is constrained by the interests of foreign investors under NAFTA. The Canadian government exposes itself to NAFTA challenges if it seeks to protect the health of Canadians through restrictions on cigarette advertising, or through the prevention of the use of terms like "light" or "mild" on cigarette packaging. Furthermore, Canadian cultural sovereignty is exposed to NAFTA claims under Chapter 11, raising the possibility that Canada could be prevented from protecting our cultural industry from direct competition with that of our much larger neighbours to the south. If Canada cannot renegotiate to eliminate Chapter 11 from NAFTA and to find effective solutions to these and other identified problems, then the Government should give notice of its intention to abrogate and replace the entire agreement.

2. The report also recommends that the Government consider moving towards a North American customs union. The NDP dissents from this recommendation. We believe that cross-border business can be conducted efficiently without this measure, which would impinge on Canadian sovereignty over our borders. The Report does not recognize that the United States has proven to be an unwilling

participant in free trade, whether in NAFTA or the WTO, and indeed, has shown contempt for the concept in areas such as agricultural subsidies, steel, and softwood lumber. American dumping of highly-subsidized agricultural products in Mexico has had the effect of driving Mexican peasant farmers off their land. Furthermore, the US is attempting another assault on Canadian sovereignty by challenging the legitimacy of the Canadian Wheat Board at the WTO. Indeed, all of Canada's agricultural supply management policies are threatened under the WTO. Canada should be far more aggressive in pursuing remedies under trade agreements like NAFTA and the WTO. It is clear from their record that the Americans are only interested in facilitating cross-border trade when they can profit from it, and given this cherrypicking approach to international agreements, it would be foolish for Canada to pursue increased integration of our markets with our southern neighbour.

3. The Report does not take note of the destructive effects of growing foreign ownership in the Canadian economy. The NDP joins with other concerned Canadians, including Mel Hurtig, in calling for the restoration of tough screening measures to be applied to all foreign investment, to ensure that it is in the interest of Canadians.

4. The Report ignores the issue of American contempt for the sovereignty of Canadian borders and law. In the recent Licht case, the US Drug Enforcement Agency was found to have acted illegally when one of its agents entered Canada without proper immigration status to carry out an illegal activity without the knowledge or consent of the RCMP, and knowing that the RCMP had withdrawn consent to further involvement in its reverse sting operation. The BC Supreme Court accordingly threw out the DEA's case to have Mr. Licht extradited to the US. The Government of Canada must speak out against this outrageous conduct. Furthermore, Canada must reiterate its call on the American government to free Leonard Peltier after abusing the Canadian extradition process to have him sent to the US.

5. The Report makes no mention of the need for public disclosure of all Canadian military sales to the United States. Canadian manufacturers must not be allowed to supply the US military with Canadian technology under the cover of secrecy. The recent example of Canadian helicopters supplied to the Americans being used as part of their Plan Colombia, which Canada should be rejecting, illustrates this problem.

6. The Report fails to call upon the Government to voice its concern regarding growing US unilateralism on the international scene. At this time the US is threatening to attack Iraq unilaterally should it determine that Iraq has breached UN Security Council Resolution 1441. We have also recently seen the Americans oppose or withdraw their participation from the Kyoto Protocol, the land mines treaty, biological weapons inspections, the ABM treaty, and the International Criminal Court. This last example is particularly odious, suggesting as it does that Americans should be above international law. Canada must

strongly reject any American requests for a bilateral exemption from the ICC. Furthermore, Canada must denounce US attempts to apply their futile embargo on Cuba extraterritorially in Canada, as they have recently in the case of Canadian citizen James Sabzali, who was convicted in the United States in part for conducting business with Cuba while in Canada.

7. The Report recommends that the Government take no decision at this time regarding whether or not to participate in or support the American missile defence system. The NDP strongly opposes this recommendation, and we note with concern that Canada has tacitly granted its support for NMD by providing financing to a Canadian company, CAE Inc., contracted to work on the system. Pentagon officials have admitted their intention to influence foreign governments to support NMD by involving businesses in those nations in the construction of the project. Their hope is that reticent governments will be swayed by the lobbying of domestic corporations eager to benefit from American contracts. The NDP urges the Government to refuse to participate in or otherwise contribute to NMD, and to cease financing to Canadian corporations intent on securing NMD contracts. Furthermore, we urge the Government to oppose any initiatives which would lead to the weaponization of space, to sign the Space Preservation Treaty, and to convene an emergency Space Preservation Treaty conference.

8. New Democrats call for a full, comprehensive public review of Canada's foreign, defence and security policies. The last such review took place in 1994, almost a decade ago, in a very different environment. New Democrats support fully the right of the dedicated men and women who serve in the Canadian Armed Forces to be treated with dignity and respect and recognition of the fact that they are prepared to put their lives on the line for our country. This must be reflected in the pay and benefits they receive, including housing and family support and protection of reservists' jobs. As well, military personnel must be well equipped to carry out the tasks they are assigned, including peacekeeping, coastal surveillance, search and rescue and international humanitarian or combat missions under UN mandate and in conformity with international law. Dangerous or outdated equipment such as the Sea Kings must be replaced at the earliest possible time. Beyond these immediate needs, it is only following a comprehensive review of our foreign and defence policies as outlined above that any increases in the global military budget may be supported, and only to achieve the objectives identified by such a review and supported by New Democrats. Such a review must also deal with the serious concerns that have arisen concerning waste of resources by the military. Finally, Canada must vigorously protest pressure from the United States to increase our defence spending, in particular US Ambassador Paul Cellucci's recent calls for such an increase. This is a totally unacceptable interference in Canadian decision making, and a thinly veiled attempt to bolster the US defence industry.

9. The report should urge the Government to consider in its public review of Canada's foreign and defence policies that security and defence depend on not just military prowess, but also on contributions to human rights, fighting environmental degradation, and tackling global poverty. In the last decade Canada's official development assistance has fallen shamefully to 0.25% of GDP, and our OECD ranking of foreign aid donors has likewise slipped, to 17th place. While the NDP acknowledges the recent positive steps taken by the Government in announcing the doubling of the level of Canada's foreign aid by 2010, Canada must re-commit immediately to achieving the UN target of 0.7% of GDP allocated to international development assistance.

10. The Report should call upon Canada to withdraw from the North Atlantic Treaty Organisation (NATO) and the North American Aerospace Defence Command (NORAD), both of which have become increasingly irrelevant since the fall of the USSR. NATO is too often an instrument of US defence policy. Recently in Prague, for example, President Bush hijacked the NATO agenda and attempted to push members into supporting a unilateral attack on Iraq. This was largely resisted, with members reaffirming a commitment to a multilateral approach under the umbrella of the UN. Our foreign and defence policies are constrained by our involvement in these organizations. Canada should instead work within the framework of a strengthened United Nations and multilateral bodies like the OSCE. Given the support for unilateral pre-emptive strikes by the American administration and government, as laid out in their National Security Strategy of September, 2002, Canada should distance itself from any integration of our defence policy with that of the Americans. The report neglects to recommend that the Government reject calls for the interoperability of Canadian and American military forces. Such arrangements serve only to make Canada a junior partner in US foreign policy. Canada should not be serving under the US in Afghanistan, nor anywhere else, except under the auspices of a United Nations mandate and in accordance with international law. In Afghanistan, serving under US command, Canadian forces turned captives over to the Americans, knowing that they were not being accorded their rights as prisoners of war under the Geneva Conventions (including the right to a tribunal to determine their status), to which we are a ratified member, and which are enshrined under domestic Canadian law as well. Currently a 16 year-old Canadian citizen named Omar Khadr is being held indefinitely at the American naval base in Guantanamo Bay, Cuba, having been captured in Afghanistan and determined by US forces to be an "enemy combatant." Mr. Khadr has not been granted Canadian consular access by the Americans, he possibly faces the death penalty, and he is being imprisoned with adults, in direct contravention of the Geneva Conventions. On issues such as the international appeal to ban the use of landmines and nuclear disarmament, Canada compromises its position through the integration of our forces with those of the Americans. Indeed, NATO maintains the dangerous policy of permitting the first-use of nuclear of weapons. NATO's recent adoption of an "out of area" doctrine, which expands its role far beyond its original mandate, is cause for further concern. It is clear that the US now sees itself as an imperial superpower, and has reserved for itself the right to pre-emptive

strikes, including with nuclear weapons, in blatant violation of the Charter of the United Nations. Given this brazen disregard for international law, it is more important than ever that Canada maintain its independence from these dangerous policies.

11. The report recommends that the Government consider the implications of establishing a security perimeter around North America. The NDP is opposed to this idea, as it would result in a serious diminution of Canadian sovereignty over our borders and our immigration policies. We must also oppose safe third country provisions as well. The impetus to establish a common security perimeter stems in part from the slow down in cross-border traffic. The reality is that this problem can be easily addressed through the current border infrastructure program and the implementation of adequate border staffing by Americans. If the Government does not address the issue of American staffing levels at border crossings, the problems with continue no matter what else is done. The report fails to acknowledge the callous disregard for Canadian citizenship displayed by American INS and security forces in recent months. The arbitrary detention of Canadians in the United States, such as Michel Jalbert, Maher Arar, Jaoudat Abou-Azza, and Mohammad Mansour Jabarah demonstrates the disregard with which the Americans view their commitments under international law, to say nothing of their consideration for their neighbours. In the case of Mr. Arar, he was deported to Syria, despite the fact that he was travelling in the United States on his Canadian passport. In the case of Mr. Abou-Azza, he was tortured while imprisoned in Massachusetts, before being deported to Canada, where he continues to be monitored and harassed by the FBI. In the case of Mr. Jabarah, the Americans informed Canada earlier this year that he is being detained, but only recently disclosed his location and the name of his appointed legal representative, and granted him consular access. Furthermore, the recent decision to begin formal racial profiling measures when dealing with Canadian citizens and permanent residents at US points of entry suggests a blatant disregard for Canadian security policies, and may be an attempt to bully Canada into adopting US immigration policy. Canadian author Rohinton Mistry was forced to cancel his American promotional tour because he could not bear the humiliation he was forced to endure at US points of entry each time he entered the country. Numerous other Canadians have suffered egregious treatment when trying to enter the United States, only because of their ethnic background. When a Canadian woman of Iranian descent went through US customs at the Vancouver airport, she was taken aside for fingerprinting and photographs. Outraged at being treated like a criminal, she announced that she would cancel her trip, and asked to leave. The INS officer refused her permission to leave, claimed that she was already considered to be in US territory, and told her she would need to submit to the humiliating process of registration regardless of whether or not she boarded her flight to the US. Canada must do much more to stop this US policy of singling out in a discriminatory way Muslims and Arab-Canadians.

12. The New Democrats support the report's recommendations on measures intended to strengthen Canada's ties with Mexico, particularly in the areas of parliamentary exchanges and exchange programs for youth.

These are the key areas in which we believe the report should be strengthened.

MINUTES OF PROCEEDINGS

Thursday, December 5, 2002
(*Meeting No. 15*)

The Standing Committee on Foreign Affairs and International Trade met *in camera* at 9:20 a.m. this day, in Room 701, La Promenade Building, the Chair, Bernard Patry, presiding.

Members of the Committee present: Aileen Carroll, John Duncan, John Harvard, Marlene Jennings, Francine Lalonde, Hon. Diane Marleau, Pat O'Brien, Bernard Patry.

Acting Members present: David Price for Mark Eyking, Jason Kenney for Deepak Obhrai.

In attendance: *From the Parliamentary Research Branch of the Library of Parliament*: Peter Berg, James Lee, Gerald Schmitz, Jay Sinha, research officers.

Pursuant to Standing Order 108(2), the Committee resumed its study of North American Integration and Canada's Role in the Light of New Security Challenges (*See Minutes of Proceedings of October 28, 2002, Meeting No. 2).*

The Committee resumed consideration of a draft report.

It was agreed,

— That the Committee adopt the draft report, *Partners in North America: Advancing Canada's Relations with the United States and Mexico*, as amended, as a report of the Committee to the House;

— That, pursuant to Standing Order 109, the Committee request that the Government table a comprehensive response to this report;

— That the Chair be authorized to make such typographical and editorial changes as may be necessary without changing the substance of the report;

— That, pursuant to the budget adopted on November 20, 2002, as amended by the Liaison Committee, on November 26, 2002, a maximum of 3500 English copies, 1000 French copies and 500 Spanish copies be printed with a special cover;

— That, pursuant to Standing Order 108(1)(*a*), the Committee authorize the printing of brief dissenting and/or supplementary opinions as appendices to this report immediately after the signature of the Chair, that the opinions be sent to the Clerk of the Committee by electronic mail in both official languages on/or before Friday December 6, 2002 at 4:00 p.m.;

— That the Chair or his designate be authorized to present the report to the House;

— That the Clerk organize a press conference to be held on tabling day after the tabling of the report.

The Committee discussed its future business.

It was agreed, — That a text prepared by Charles-Philippe David for his appearance before the Committee in relation to the Committee's consideration of the situation of Iraq, be appended to the Evidence presented at the meeting of December 4, 2002 (Appendix 1).

At 10:18 a.m., the Committee adjourned to the call of the Chair.

Stephen Knowles
Clerk of the Committee